



**DELHI UNIVERSITY  
LIBRARY**

*Presented by .*

**Dr. S. N. VERMA**

DELHI UNIVERSITY LIBRARY

Cl. No V3:19:N387

G5

Ac. No. 375101

Date of issue for book

This book should be returned on or before the date last stamped below. An overdue charge of 5 Paise will be collected for each day the book is kept overtime.

15 NOV 1973



THE NEXT FIVE YEARS  
AN ESSAY  
IN POLITICAL AGREEMENT



MACMILLAN AND CO., LIMITED  
LONDON • BOMBAY • CALCUTTA • MADRAS  
MELBOURNE

THE MACMILLAN COMPANY  
NEW YORK • BOSTON • CHICAGO  
DALLAS • ATLANTA • SAN FRANCISCO

THE MACMILLAN COMPANY  
OF CANADA, LIMITED  
TORONTO

# THE NEXT FIVE YEARS

AN ESSAY  
IN  
POLITICAL AGREEMENT

MACMILLAN AND CO., LIMITED  
ST. MARTIN'S STREET, LONDON

1935

**COPYRIGHT**

*First Edition July 1935  
Reprinted September 1935*

PRINTED IN GREAT BRITAIN  
BY R & R CLARK, LIMITED, EDINBURGH

## FOREWORD

WE AGREE in giving general support to the short-range programme of political action outlined in this book.

A year ago, many of us, drawn from different parties and schools of thought, joined in signing two Manifestos defending the principles of political liberty and democracy and outlining a constructive policy. Since then, a representative group, consisting mainly of signatories of those Manifestos, has considered in a series of meetings how the outlines of the policy there sketched should be filled in. The present book has been written under the directions of this group.

In jointly signing this Foreword and commending the book, we do not commit ourselves to endorsement of every detail of the proposals, nor do we renounce any of our individual views as to the way in which society should ultimately be organized. But we are in agreement on the general policy here proposed, believing that it embodies a far-reaching but attainable programme of action for the next five years.

*(Signed)*

PROFESSOR LASCELLES ABERCROMBIE  
ISHBEL, MARCHIONESS OF ABERDEEN AND TEMAIR  
RT. HON. SIR FRANCIS ACLAND M.P.  
HORACE G. ALEXANDER  
PROFESSOR S. ALEXANDER O.M.

\*†LORD ALLEN OF HURTWOOD  
LORD AMULREE  
\*SIR NORMAN ANGELL  
\*†W. ARNOLD FORSTER  
\*MRS CORBETT ASHBY  
MISS MARGARET ASHTON  
CYRIL ASQUITH  
J. H. BADLEY (Headmaster, Bedales School)  
GERALD BAILEY  
PROFESSOR ERNEST BARKER  
RT. HON. G. N. BARNES  
HARRISON BARROW  
CANON F. R. BARRY  
GERALD BARRY  
\*VERNON BARTLETT  
\*ROBERT BERNAYS M.P.  
NORMAN BIRKETT K.C.  
LAURENCE BINYON  
BISHOP OF BIRMINGHAM F.R.S.  
SIR BASIL BLACKETT  
RT. HON. C. W. BOWERMAN  
R. A. BRAY  
\*HENRY BRINTON  
\*JOHN BROMLEY (General Secretary A.S.L.E.F., Ex-chairman Trade Union Congress)  
\*†A. BARRATT BROWN (Principal, Ruskin Collège, Oxford)  
SIR MONTAGUE BURTON  
DAME ELIZABETH CADBURY  
\*LAURENCE J. CADBURY  
REVEREND A. J. CARLYLE  
MISS THELMA CAZALET M.P.  
VISCOUNT CECIL OF CHELWOOD (1)  
MISS KATHLEEN D. COURTNEY  
SIR VALENTINE CRITTALL  
\*†GEOFFREY CROWTHER  
W. B. CURRY (Headmaster, Dartington Hall School)  
LIONEL CURTIS (3)

R. C. DAVISON  
SIR WYNDHAM DEEDES  
R. D. DENMAN M.P.  
LORD DICKINSON  
CANON F. LEWIS DONALDSON  
\*A. E. DOUGLAS-SMITH  
REV. HERBERT DUNNICO  
SIR GEOFFREY ELLIS M.P. (2)  
LORD ELTON  
\*R. C. K. ENSOR  
MAJOR C. F. ENTWISTLE M.P.  
ST. JOHN ERVINE  
RT. HON. H. A. L. FISHER (Warden of New College,  
Oxford)  
MRS H. A. L. FISHER  
HORACE FLEMING  
\*ISAAC FOOT M.P.  
A. G. GARDINER  
MAXWELL GARNETT (1)  
DR. ALFRED E. GARVIE  
DR. G. P. GOOCH  
MISS F. M. GRAVES M.P.  
CAPT. L. H. GREEN  
SIR RICHARD GREGORY F.R.S.  
\*MISS LYNDA GRIER (Principal, Lady Margaret Hall,  
Oxford)  
COLONEL W. A. GRIERSON  
\*JONATHAN GRIFFIN  
\*MISS BARBARA GWYER (Principal, St. Hugh's Col-  
lege, Oxford)  
MISS GRACE HADOW (Principal, Oxford Home Students)  
SIR HENRY HADOW  
LADY [DANIEL] HALL  
J. L. HAMMOND  
H. WILSON HARRIS  
PROFESSOR JOHN W. HARVEY  
T. EDMUND HARVEY  
GEORGE HEDDON

SIR LEONARD HILL  
RT. HON. J. W. HILLS M.P.  
A. L. HOBHOUSE  
J. A. HOBSON  
SIR THOMAS HOLLAND  
LAURENCE HOUSMAN  
LORD HOWARD OF PENRITH  
MRS EVA HUBBACK (Principal, Morley College)  
CANON F. W. HUTCHINSON  
\*PROFESSOR JULIAN S. HUXLEY  
DR. L. P. JACKS  
C. E. M. JOAD  
COMMANDER STEPHEN KING-HALL  
DAVID C. LAMB (Commissioner, Salvation Army)  
\*SIR WALTER LAYTON  
DR. J. SCOTT LIDGETT  
\*A. D. LINDSAY (Master of Balliol)  
\*NOEL KER LINDSAY M.P.  
SIR OLIVER LODGE F.R.S.  
DAVID LOW  
DAME EDITH LYTTELTON  
THE EARL OF LYTTON (1)  
\*†HAROLD MACMILLAN M.P.  
DESMOND McCARTHY  
S. P. B. MAIS  
J. J. MALLON  
\*GEOFFREY LE M. MANDER M.P.  
T. B. MARTIN M.P.  
A. A. MILNE  
\*HUGH MOLSON M.P.  
LILY MONTAGU  
HAROLD J. MORLAND  
PROFESSOR J. H. MUIRHEAD  
\*CAPT. PHILIP MUMFORD  
\*PROFESSOR GILBERT MURRAY  
\*LADY MARY MURRAY  
CHAS. S. MYERS F.R.S.  
SIR WALTER NAPIER

- HENRY W. NEVINSON  
SIR PERCY NUNN  
T. J. O'CONNOR M.P. (2)  
C. S. ORWIN (Director, Institute Research Agricultural Economics, Oxford)  
GEORGE PEVERETT  
MISS E. PICTON-TURBERVILL  
\*SIR ARTHUR PUGH (General Secretary Iron and Steel Trades Confederation, Ex-chairman T.U.C.)  
\*MISS ELEANOR RATHBONE M.P.  
CANON C. E. RAVEN (Regius Professor Divinity, Cambridge)  
\*VISCOUNTESS RHONDDA  
REV. LEYTON RICHARDS  
CANON GUY ROGERS  
ARNOLD S. ROWNTREE  
\*B. SEEBOHM ROWNTREE  
LORD RUTHERFORD O.M. F.R.S.  
\*†SIR ARTHUR SALTER  
SIEGFRIED SASOON  
CANON E. G. SAVILE  
DR. W. B. SELBIE  
PROFESSOR NORMAN KEMP SMITH  
NOWELL SMITH  
BISHOP OF SOUTHWARK  
WICKHAM STEED  
CANON TISSINGTON TATLOW  
EDWARD THOMPSON  
DAME SYBIL THORNDIKE  
R. C. TREVELYAN  
SIR RAYMOND UNWIN  
AYLMER VALLANCE  
ANGUS WATSON  
H. G. WELLS  
\*H. GRAHAM WHITE M.P.  
MRS M. WINTRINGHAM  
MISS H. M. WODEHOUSE (Mistress of Girton College, Cambridge)

H. G. WOOD  
SIR EVELYN WRENCH  
THE ARCHBISHOP OF YORK  
**\*ALLAN YOUNG**

*Note.*—Among the above signatories those marked \* attended one or more of the conferences which initiated and approved the book or signed the letter inviting signatures Those marked † were members of the drafting committee.

1. Agreement confined to the portion of the book dealing with International Relations. Do not wish to express any opinion on the other proposals
2. Do not agree with the proposals in Chapter V (Banking and Finance)
3. Agreement limited to Part I

"LIBERTY AND DEMOCRATIC LEADERSHIP"  
25 NORTHOOR ROAD, OXFORD  
*June 1935*

## CONTENTS

	PAGE
FOREWORD . . . . .	v
INTRODUCTION . . . . .	1
The Challenge to eliminate war and poverty, and to safeguard liberty and revitalize democratic government	
The new opportunity for political collaboration, old divisions now less relevant.	
Improvisation or Design?	
PART I: ECONOMIC POLICY	
CHAPTER I	
ECONOMIC PLANNING . . . . .	11
The need for economic planning Meaning and limitations of planning Planning must be coherent opportunities lost through lack of this, e.g. as regards rubber, wheat, sugar, "ribbon development".	
Organization for planning (a) a Government Planning Committee, (b) an Economic General Staff. Advantages and difficulties of such an organization.	
Tasks of the planning organization	
CHAPTER II	
TOWARDS A PLAN FOR BRITAIN . . . . .	23
Britain surveyed. A complex economic system working faultily, inequalities of wealth	
The Foundations of British Prosperity—industrial development and international commerce Is the age of expansion over? Reasons for optimism The effects of economic nationalism.	
The Means of Progress (a) National Development by means of capital expenditure, especially in times of depression. (b) Organization of industry, the increasing concern of the State (c) Banking and Finance; reform of the monetary and banking system. (d) Foreign Trade; restoration of international commerce and a revival of British export trades, with continuation of a moderate protective tariff. (e) Agriculture; an increase in home production of certain foodstuffs, but an increase in	

British export trade will necessitate the avoidance of any drastic or general restriction of imports of food (f) Social Justice, much still remains to be done, e.g. to extend and improve the educational system and to get rid of poverty, malnutrition, the slums. The democratic state must move towards Economic Justice.

### CHAPTER III

#### NATIONAL DEVELOPMENT

40

A threefold need for National Development (a) to remove the legacy of muddle and waste, (b) to prevent waste for the future, (c) to meet the exceptional needs and opportunities of a period of depression. A twofold policy of National Development: a *long-range* continuous programme and a *short-range* programme for times of depression. The criticisms of public works are either unsound or irrelevant to present circumstances.

A National Development Policy. A National Development Board, to work in collaboration with the Government Planning Committee and with the Economic General Staff. The long-range programme to be financed out of regular revenues allocated to the Board. Short-range programmes to be financed by borrowing.

Projects of National Development. Electrification. Housing, the unsatisfied demand for cheap houses to let, the necessity for centralization of finance, purchase of materials and geographical planning, a National Housing Commission. Roads. Schemes of Local Authorities. Encouragement of Private Works. Town and Country Planning, National Parks, regional authorities with positive and negative powers.

### CHAPTER IV

#### THE ORGANIZATION OF INDUSTRY

70

The Need for Organization. The deficiencies of the system of private enterprise, it fails to assist the depressed industries or to prevent monopoly. But the need for organization is not universal in industry. The aim of planning must be to increase, not to restrict, the production of wealth.

Methods of Organization. An Enabling Act. The need to avoid monopoly. The three monopoly powers. Procedure for approving schemes under an Enabling Act.

The Depressed Industries. The lines of reconstruction.

Public Concerns. A new category wanted in the Companies Acts for gigantic monopoly concerns. The chief prescription is publicity for all their operations.

Public Utilities. Organization for industries peculiarly "affected with the public interest."

Socialized Industries. The conditions and limits of progress in socialization. Transport. Electricity. Insurance. Distribution. Minim<sup>o</sup> royalties. Manufacture of Armaments.

## CHAPTER V

## BANKING AND FINANCE

97

The Scope of Monetary Policy An essential element, but not the only essential element in policy.

The Bank of England. Defects of its present constitution. The Governor and Deputy-Governor to be appointed only with the consent of the Government. An Advisory Council representative of industry, commerce, labour, commercial banking and economic science Extended publicity The importance of preserving freedom for the day-to-day policy of the Bank, subject to the long-term supervision of the Government

The Joint-Stock Banks. Criticisms of the joint-stock banks, but any proposals for reform must be tested by the criterion of their probable effect on public confidence in the banks Reasons against nationalization. Public Utility status, subject to limitation of profit and to supervision by a Banking Commission

Currency and Credit Policy The gold standard and a "managed" currency both have defects A new international system with more stability than the present fluctuations but more flexibility than the gold standard Domestic credit policy to be directed towards the general objective of a stable price-level.

The Mobilization of Capital The importance to the community of the mechanism by which savings are converted into capital wealth The defects of the London Capital Market, especially in regard to issues for domestic industry. A National Investment Board, to undertake the tasks of Regulation and Encouragement. Issuing Houses and Investment Bankers. The status of auditors.

## CHAPTER VI

## FOREIGN TRADE

125

The Necessity of International Trade Free Traders and Protectionists can agree that we need more foreign trade than we have at the moment Reasons for believing a revival in exports is practicable

The Implications of Trade. Increased exports will involve a resumption of foreign lending and an increase in imports. Britain must deliberately reconcile itself to importing goods which could be made at home The defects of the present system of tariff-making Flat Rate Duties Exceptions for temporary emergencies and for industries of exceptional national importance

The Means of Expanding Trade The limitations of the "most-favoured-nation" principle The disappointing results of bilateral negotiations The new principle of reciprocity, leading to a Low Tariff Club. Reasons why other countries would welcome, or accept, such a Club Commercial policy towards the Dominions, and the Colonial Empire. The quota an emergency weapon only.

## CHAPTER VII

AGRICULTURE

151

**The Place of Agriculture in the National Life.** Britain is primarily an industrial and commercial nation, but agriculture is still her largest industry. The true economy of importing food; importation is still the cheapest method. The incalculable benefits of cheap food. The recent slump in prices; a temporary phenomenon.

**Principles of Policy** In the circumstances of Great Britain, agricultural policy cannot be founded either upon high prices for food or upon the restriction of imports. The need for discrimination in encouraging agricultural development. Four main methods (a) An increased demand for foodstuffs, the home farmer supplies the protective foodstuffs which the poor most urgently need (b) Reform of Food Distribution, the proper function of marketing boards (c) Increased productive efficiency, the land starved of capital, gradual replacement of the landlord-and-tenant system by public ownership of land. (d) Financial assistance by the State, quotas, tariffs, and levies are justifiable as temporary measures to meet an emergency, but for permanent policy the subsidy is the best method.

Land Settlement "Back to the Countryside" and "Back to the Land". The difficulties in the way of a large-scale policy of land settlement dictate caution and moderation. Small-holdings for agricultural labourers. Intensive "factory farms". Subsistence homesteads for the depressed areas.

## CHAPTER VIII

SOCIAL JUSTICE

177

The equity of the economic system is of equal importance with its productive efficiency. The Labour movement is securely established and generally accepted. Hours of Work, the scope for further reductions of hours, though large, is not unlimited.

**The Social Services** The policy of a National Minimum. The existing services, largely through historical accident, are unco-ordinated, the relations between them should be drawn tighter. (1) Unemployment. A threefold confusion between insurance and relief, between the humanitarian impulse and economy, between central and local administration. The Means Test to be purged of its harshnesses (2) Old Age. Increase of pensions for those entirely dependent on them. The future burden of old age, the urgent need for a State-organized system of superannuation allowances (3) Education. The progress of Hadow reorganization, an increase in the school leaving-age is essential on educational and industrial grounds alike (4) Nutrition. A new responsibility only dimly realized. The beginning with milk. A National Food Policy.

**Taxation and Equity** The British tax system is inequitable,

and is not growing less so. The cost of the Social Services is little, if any, greater than the increased taxation imposed on the poor in the last twenty years. Possible future sources of tax revenue: the increment in land values; increased surtax rates on "unearned" income, increased death duties.

## PART II: INTERNATIONAL RELATIONS

### CHAPTER IX

#### THE COLLECTIVE PEACE SYSTEM AND ITS ALTERNATIVES 215

Objectives of British Foreign Policy.

Prevention of war grave present dangers, but elimination of the war system perfectly practicable.

Three possible policies. (a) Armed Isolation, (b) Balance of Power and Aliances, (c) the Collective Peace System.

What the collective system involves collective building of peace and restraint of war. Collective peace-building outside the League. Present weakness of the Collective System.

Conclusion British Policy should aim at strengthening the collective peace system, and developing the closest possible collaboration with the United States.

### CHAPTER X

#### CO-OPERATION WITH AMERICA . . . . . 234

Importance of co-operation between the United States and the British Commonwealth, and between the U.S. and the League Britain as the link between the U.S. and the League's peace system.

Possible causes of friction war debts, freedom of the seas, the unpredictability of American foreign policy.

Recent progress a possible American assurance as to conference with other states in times of crisis

Conclusion The essential tie between the U.S. and the British Commonwealth must be maintained

### CHAPTER XI

#### MAKING THE EXISTING PEACE SYSTEM WORK . . . . . 244

How can British policy help to strengthen the collective peace system? By helping to ensure that it is (a) widely understood; (b) effectively supported and fully used, (c) developed when circumstances permit.

The need for "education for peace" suppression of freedom of opinion in many countries the need in this country for democratic leadership in spreading understanding of the collective peace system, its advantages and obligations. If war is

to be prevented, the national policy must be, in its broad lines, predictable

"Back to the Covenant" Much more important to show that the existing engagements are accepted as binding and that the existing peace organization is really meant to work than to add new engagements or organization

Using the League the large benefits that could be derived from spending a little more money on League services, some extensions of these services.

Fulfilling the Covenant Articles not yet adequately applied, e.g. Article VIII (general reduction and limitation of armaments), Art. XVIII (publication of treaties), Art XIX (peaceful change), Art XXIII (freedom of communication and equitable treatment of commerce), Minorities

Principles and technique of the collective system The crucial importance of real equality of treatment for Germany The collective system should be in a position to enlist preponderant strength collectively, not against State X, a predetermined country, but against any country which may resort to force in breach of the agreed code of peace

Conclusion the collective peace system that exists should be better known, more fully used, more loyally put into effect

## CHAPTER XII

### IMPROVING THE COLLECTIVE PEACE SYSTEM

256

#### Present difficulties

(1) Renunciation of war Resort to war, and resort to force, definition of aggression, war resistance

(2) Peaceful settlement of disputes The Optional Clause and General Act, the Irish Free State and the principle of arbitration

(3) Change, but peaceful change Reducing the need for change, extending the Permanent Court's discretion, decisions on an equity basis, compulsory powers for the League Council, Art XIX of the Covenant

(4) Collective security, positive and negative

(a) Positive security, the organization of peace

(b) Negative security The purpose of sanctions, the moral justification for them, the political demand, the technical problem

Limits of the obligation to co-operate in sanctions, universal and regional obligations, Britain's share

Other contributions to collective security, e.g. guarantees for a Disarmament Convention, limitation of expenditure on armaments, regulation of the arms trade, international ownership or control of civil aviation, perhaps an international air force

(5) Disarmament Men, material of land, sea, and air warfare, supervision. The prospects

### EPILOGUE

309

### APPENDIX TWO MANIFESTOS ON LIBERTY AND DEMOCRATIC FADEPUS

319

## INTRODUCTION

### THE CHALLENGE AND THE OPPORTUNITY

*This book.*—The purpose of this book is to outline a policy on national and international affairs which is far-reaching enough to provide a programme of action for a number of years to come; which is reasonable enough to justify the hope that it will enlist the support necessary to secure its adoption; and which is founded on principles applicable to permanent as well as to temporary needs.

The book deals chiefly with problems of economic organization and with world peace. It does not attempt to cover every sphere of policy: for instance, the political evolution of the British Commonwealth is not dealt with, nor is there any detailed consideration of some outstanding questions of social policy.

Those who, in the Foreword, endorse the book have different political associations, and divergent views as to ultimate doctrine and policy; but they are agreed, without sacrificing principles or ultimate objectives, upon a programme which should be pursued in the years immediately ahead and which would, in their view, be as far-reaching as could in any circumstances be carried through in the lifetime of a single Parliament. The policy advocated in the book, in its broad outline and character, has their general agreement. But such a document cannot, in the nature of the

case, represent the full views of the signatories of the Foreword, nor can those signatories be assumed to agree with each detail of the proposals.

*The Challenge.*—We believe that the present situation offers a new opportunity and a new challenge: a challenge to give leadership in organizing a world order freed from the menace of war, a challenge to develop an economic system which is freed from poverty and makes full use of the growing material resources of the age for the general advantage, and a challenge to safeguard political liberty and to revitalize democratic government.

The need to master the war danger, and the international anarchy from which it springs, is manifest and urgent. The desire for peace is probably more widespread and conscious now than at any other period in history: but science and invention, exploited by anarchic nationalism, have so increased man's power to destroy mankind and his common inheritance that war has become a graver menace to civilization than can be realized in imagination. Conflicting national policies are being pursued with little regard for the consequences,—as may be judged from the prolonged failure to check competition in armaments. If the nations fail to master this anarchy, if they refuse to accept those curtailments of national sovereignty which are the necessary price of true security, then disaster greater even than that of 1914 will become inevitable.

In its political aspect, the problem of peace is essentially a problem of government: there can be no enduring solution of this problem until there has been created an organic structure of international government which comprehends all those competing and conflicting activities that transcend national frontiers.

. Not less urgent than the challenge to master war is the challenge to master poverty: and here the task has become more manageable now than ever before. Science and invention have so increased our power to produce wealth that poverty, in the modern world, is becoming an anachronism. We are challenged to discover the means by which the increasing productivity made possible by modern science and invention can be utilized to raise the standard of life and establish a satisfactory system of production and exchange. Stubborn resistance to the economic and social changes which this situation demands, or even a negative attitude of inertia or timidity, would produce, sooner or later, the inevitable revolt against reactionary complacency. But that wave of political intolerance, whilst failing to solve our economic problems, would be likely to sweep away the civil liberties that we in this country have always prized.

Thus a third outstanding challenge arises from the need to guard political liberty against new menaces, and to fit the democratic system of government for the efficient discharge of new tasks. In many countries political liberty has been suppressed and the democratic system of government has been abandoned. The defence of democracy and of peace is to be found not in a merely negative resistance to movements that menace them but in the abolition of the conditions out of which alone such movements can gain strength.

Most of the signatories of this book have previously subscribed to one or both of two manifestos on this subject which were published in 1934.<sup>1</sup> All of us affirm here our conviction that, without certain liberties and

<sup>1</sup> *Liberty and Democratic Leadership*, see Appendix.

rights, we could not regard any organization of society as a tolerable one. We believe in government by persuasion; we are determined that, if we can prevent it, government based on discussion shall not give way in this country to government by dictatorial violence. But we recognize that the democratic system is on its trial: if it is to prove capable of achieving new tasks more complex than those for which it was built up, it must be courageously led and it must in some respects be refashioned.

A special responsibility rests upon this country, one of the surviving strongholds of the democratic system, to demonstrate that that system can adapt itself to new needs, and that a political system is more surely founded upon a free and educated public opinion, democratically led, than upon any authoritative régime.

*The Opportunity.*—We believe that, besides this new challenge to political action, there is now a new opportunity for political collaboration.

There are of course profound differences of opinion and of interest which cannot now be resolved. But there is no reason why travellers whose ultimate destinations are diverse should not travel together so long as their direction is the same, if they can agree as to the choice of route and rate of advance. And we believe that, dispersed now among the political parties or owning allegiance to no party, there are enough people who agree upon the kind of policy that should be pursued in the years immediately ahead to afford adequate, and indeed overwhelming, support for a programme of action such as we have outlined. To secure the required co-operation, no compromise on principle or on ultimate objective is needed, but only a reasonable spirit of

accommodation in the determination of priorities and in the choice of methods. The great mass of the public in this country, and the most active personalities in each party, are united, we believe, in desiring to conserve what in the world of to-day stand out as the distinctive features of our political heritage—the principles of liberty and political equality; and at the same time they desire to secure greater economic equality and the more effective subordination of every sectional interest and activity to the general public interest. There is widespread agreement, also, that peace should be sought, not by way of isolation nor by way of the balance of power and exclusive alliances, but by way of collective action for the organization of peace and prevention of war.

*Old Divisions now Irrelevant.*—The rival principles and catch-words which marked the lines of political cleavage in the past are to a large extent irrelevant to the real issues now.

The historic controversy between individualism and socialism—between the idea of a wholly competitive capitalistic system and one of State ownership, regulation, and control—appears largely beside the mark, if regarded with a realistic appreciation of immediate needs. For it is clear that our actual system will in any case be a mixed one for many years to come; our economy will comprise, with great variety of degree and method, both direct State ownership and control, and management by public and semi-public concerns, and also a sphere in which private competitive enterprise will continue within a framework of appropriate public regulation.

Again, the old issue between Free Trade and Protection should no longer prove an insuperable obstacle to

such co-operation as we have in mind. Free-traders, without abandoning their ultimate doctrine, do not contend that complete and unilateral free trade is now a practical objective of policy. They are prepared, we believe, to judge tariff policy by its character and its object: they are prepared, broadly speaking, to accept a policy which is genuinely devoted to enlarging external trade and to establishing it upon more stable foundations by means of reciprocal agreements and mutual concessions; and they are prepared to accept a policy such as we outline in Chapter VI as the necessary counterpart of improved organization and efficiency in the domestic industrial system. Nor, on the other hand, will protectionists deny that any encouragement of the home market by such means as a tariff must be compatible, in its extent and in its method, with the restoration of those export trades in which there are now hundreds of thousands of untransferable unemployed.

*Improvisation or Design.*—In short, so far as there are differences which cannot be bridged over for the purposes of practical co-operation on a short-term programme, the cleavage now follows new lines. We have not attempted to meet the views of those who, instead of desiring more coherent design in our political and social system, are content to trust rather to improvisation. There are those who virtually assume that man cannot control his economic future, or master the forces making for war, by rational, constructive, and collective effort; who, because they despair of success in so ambitious a task, or because they desire the pursuit of national policies which are really incompatible with peace, or because they cling jealously to inherited privileges now inadmissible, desire to

reverse the whole trend of recent development, or else to "muddle through" by successive improvisations as each emergency occurs, with a mystic faith in the ability of natural forces or instinctive human action to reinstate a workable system.

On the other hand, there are those who believe that we can and must master international anarchy and get rid of the war system, by organized collective action; and that the community can and must deliberately plan, direct, and control—not in detail but in broad outline—the economic development to which innumerable individual activities contribute. These believe that the State, and other institutions associated with the State, must be increasingly active partners both in encouraging and directing economic enterprise.

For our part we believe that the second of these groups comprises most of the active and leading personalities in political life, and that an overwhelming public support for a policy framed on these assumptions can be anticipated. We believe that there is here a sufficient identity of outlook to serve as the basis of co-operation in a practical programme. The correctness of our belief can only be ascertained by framing and publishing such a programme. Hence this book.

We repeat that the present situation offers at once a new challenge and a new opportunity. The democratic system of government is on its trial. It will only survive if it can produce a policy equal to the problems of our time and a leadership capable of evoking the co-operation and enthusiasm necessary to carry it through. In these times a special responsibility rests upon informed men of moderate opinion whatever

their party allegiance may be. They must secure the acceptance of a policy of this kind by whatever government may be in office. If they fail to do so, the probabilities are that we shall drift on till the next shock of crisis strikes a weakened system and a despondent population, when the outcome may be a despairing lapse into the tyrannical and barbaric methods that have supervened in similar circumstances elsewhere. A confident leadership with a policy of this kind could, on the other hand, rally the nation to great achievement and create the conditions of prosperous security in which the future evolution of society could be determined by the process of argument and reason. It is because we accept this view of the vital importance of a coherently designed policy at the present time that we have agreed to set aside our differences regarding long-term objectives and to register our agreement upon the immediate plan of action contained in this document.

**PART I**  
**ECONOMIC POLICY**



## CHAPTER I

### ECONOMIC PLANNING

WE turn first to questions of economic policy; for in the period in which we live, the main substance of public policy will generally be determined by economic needs.

We approach the subject from the standpoint indicated in the Introduction. We recognize that deep differences of interest and opinion exist as to the ultimate goal of economic and social policy; but we believe that there are enough who agree upon the kind of policy required in the immediate future and upon the need for a coherently planned policy, to afford adequate support for such a programme as we shall try to formulate.

### THE NEED FOR ECONOMIC PLANNING

It is evident that the present economic system is in many respects very unsatisfactory. The community has not yet discovered methods by which production can be allowed to expand to full capacity and by which the resources of the nation can be fully employed to enrich man's life and endow his leisure.

The *motive* of profit-making has already, to a greater extent than is commonly realized, ceased to be the mainspring of economic activity in this country: and we think it safe to assume that this tendency will continue in the future, and that the principle of developing

the resources available to the community under public ownership or control for the use of the whole community will be further extended in the years immediately ahead.

Apart from the question of *motive*, we believe that the State will find it increasingly necessary to intervene in order to set the *direction* of the economic activity of the community. In many spheres the free movement of prices still performs its function of directing the available resources of the community into the uses where their employment will be most economic. But in other spheres, the price system is failing to bring equilibrium out of chaos. In these circumstances, the old self-regulating mechanism of a competitive economy, guided by the prospect of profits, is not by itself an adequate regulator of the whole economic system. We cannot in future be content to rely for such direction entirely upon the unco-ordinated decisions of individuals or groups who cannot, in the nature of things, see the nation's problems as a whole. The nation will rightly require of its Government not a merely passive policy of succouring the victims of a defective economy, but a positive, energetic leadership in constructing a new organization for collective planning and direction of its economic life.

We assume, then, that the functions of government in relation to economic activities are increasing and will increase, both in range and complexity. That being so, we assume that there will be need for more varied and flexible methods and a more skilful and scientific treatment than any for which the existing administrative system is as yet equipped.

We need more economic planning.

*Planning Coherently*.—The first point we wish to

emphasize is that the Government should plan its policy *as a whole*.

It will be well for us to explain just what we mean by "planning".

We do not here envisage that the Government should aim at a "planned economy" which would, throughout every sphere of economic activity, replace the adjustments of the competitive price system by deliberate direction. Such planning as we have in mind would be essential even if the responsibilities assumed by the State were to remain only of the same kind as at present, and it will become all the more necessary if the State accepts such extensions of its responsibilities as we consider both inevitable and desirable. The real alternative to planning in this sense is not freedom but improvisation. At present an elaborate and extensive system of State control is being built up haphazard, successive measures being determined by emergencies or by the successful pressure of some sectional interest, and neither related to any general conception or scheme nor co-ordinated amongst themselves. Such a system is bound to be wasteful and inefficient; it is bound to be injurious to all interests except those which are immediately served, and ultimately, as their range extends, injurious even to those interests.

We realize, of course, that any new economy must be worked out, in some measure, tentatively and piece-meal; and that any general scheme and conception must be provisional and in outline only, receiving its content from experience and practical development. Nevertheless a general scheme, progressively acquiring substance and detail, is absolutely essential as a guide to practical action in different spheres.

Governmental action within a given sphere neces-

sarily affects economic development in other directions. Assuming, therefore, that action is taken at all, we do not escape the problem of choosing the form of general economic structure we desire—we only choose it blindly.

If, for example, we desire to encourage, by tariff, quota, or subsidy, the home production of food which we formerly imported, we necessarily affect our export industries and incur the responsibility of transferring some of those engaged in those industries. Whether, or on what conditions, the nation is right to restrict food imports is discussed later. Our immediate point is that, in any case, such action should be adjusted to some general conception of the whole balance of trade and payments of the country; and that it is obviously imperative that we should attempt to see the situation as a whole and obtain some criterion by which we can judge the comparative gains and losses likely to result from action in a particular sphere.

We will take one other example. We are all agreed, as will appear later, upon the desirability of embarking on a bold and progressive housing policy. But a sound estimate of the numbers of houses required, the type of house, and the placing of the houses, involves a much wider study than a mere "survey of the housing situation": it is not enough to determine the extent to which, in each area, at the moment, there is a deficiency of supply to meet an immediate demand. Houses last for a period during which vast changes may take place in the numbers, the average age, and the family composition of the population,—changes which must be taken into account in a considered housing policy, and which can be properly estimated only by means of careful study of social trends and vital statistics. Vast

changes may occur also in the geographical distribution of the population: and those changes will depend largely upon the Government's economic policy, which may encourage or discourage the export industries and those situated in the ports and distressed areas; which policy may, or may not, involve deliberate action to influence the location of new industries.

*Opportunities lost through lack of Coherent Planning.*— Opportunities are frequently lost, and new problems are created, through lack of appropriate organization for reviewing particular projects in relation to a coherent plan. Here are three illustrations.

Consider first the original rubber restriction scheme. Whether or not a rubber restriction scheme was desirable, it was certain—and would have been obvious to any appropriately constituted Committee which had been given a week for consideration—that, if a principal group of producers, the Dutch, stood out, the scheme was destined to be a failure. But this and other difficulties were not foreseen, or did not determine action, because the Government had no regular advisory organization to hand; the advice of Civil Servants, inexpert in this question and otherwise occupied, together with the advice of a few outside experts hastily consulted, was inadequate in view of the fact that this scheme was being pressed by a great organized interest, armed with full technical knowledge and concentrated upon a single objective.

Take, secondly, the State's early incursion into agriculture. Assuming the desirability of encouragement, it is probable, for the reasons we give later, that sugar offered the least results at the greatest cost. It was this sphere in which the State invested first and most heavily. Next to sugar, an expansion (as distinct from

a maintenance) of wheat offered comparatively little either in food produced or in employment provided in relation to its cost; and yet it was to wheat we turned next. Only later, and by methods on which we shall comment below, did the State turn to other forms of production more suitable than these. A general consideration of the agricultural problem on principles we shall suggest would have saved the country from this false start.

Take, thirdly, the scandal of "ribbon development". The State embarked on a great scheme of new arterial road development. It was obvious that these new roads would create greatly increased land values, resulting first from the public expenditure and secondly from the general public development so encouraged, and in no degree whatever from the action or effort of the private owners of the land. It was also obvious that important results affecting the amenities and the location of new houses, as regards both the use of the roads and the public safety, were inevitable. Parliament indeed fore-saw these results and specifically posed the problem to the administration by providing powers to acquire not only land for the roads themselves but also adjacent land affected by them. The administration failed completely—and for a characteristic reason. The increase of land values was as certain as anything in human affairs can be; and so were the evils that must result from un-controlled development. But with a vision limited to a current budget year or two, the administration feared that expenditure might exceed profits; and the power to control housing development entailed the assumption of direct responsibility of a new and onerous kind. A short-visioned and preoccupied administration—with no authority to supplement it with a broader vision—

evaded the responsibility, with results that are now visible and could easily have been foreseen. Only to-day, under external pressure and after immense damage has been done, is an effort, now necessarily expensive, being made to retrieve the situation.

### ORGANIZATION FOR PLANNING

We conclude, then, that the Government must plan its economic policy coherently.

But if it is to do that efficiently, it must equip itself adequately for the purpose. Clearly, the Government is not so equipped now, either in its machinery or in its traditional methods. To equip itself for the work which is now imperatively demanded, the Government must, we consider, do two things. It must organize the resources available within the Government's service; and it must establish a machinery through which it can secure the effective help and co-operation of those who are outside the Government service and have the expert knowledge, the experience, and the kind of power which only those engaged in actual direction and management, throughout the different spheres of the country's economic life, can possess.

We propose, therefore, the creation of the following new machinery for the concerted direction of the national economy.

(a) *A Government Planning Committee*.—A small standing committee should be formed, composed of Cabinet Ministers of the highest rank, free from daily departmental responsibility. The Committee should be continuously engaged, with appropriate staff and assistance, in planning policy in its broadest outline. This Committee might consist of the Prime Minister,

and several Ministers without portfolio, these last being chosen not on seniority but for their suitability for the task we now propose.

This Committee should enlarge itself, as occasion requires, by the addition (separately or together) of the Ministers controlling Departments specially concerned with economic policy (Treasury, Board of Trade, Agriculture, Health, Labour). It would, of course, also summon before it appropriate officials or non-official experts.

This Committee would direct the special organs hereafter proposed and would frame general directions as to policy for submission to the Cabinet, and these directions would, after approval, constitute instructions to the appropriate Departments.

(b) *Economic General Staff*.—Side by side with, and subject to, this political Committee, which would necessarily change in personnel with changes of Government, there should be a standing body consisting of persons of more specialized expert knowledge, with more permanent tenure.

This body should, we consider, consist in part of the permanent chiefs of the main economic departments and in part of persons with other relevant experience, such as are to be found among the members of the present Economic Advisory Council; it should include members drawn from the Trades Union and Labour movement. It should have as its Chief Officer an established Civil Servant ranking with the head of a principal department and assisted by a highly qualified staff. The body we contemplate would of course be wholly different in character from the present Economic Advisory Council, with its infrequent meetings and its diminutive permanent staff.

Its task should be—in conjunction with, and subject

to the direction of, the Cabinet Committee—to make a continuous survey of national problems, to make proposals to that Committee, and to work out plans referred to it by the Committee. It should also propose personnel and instructions (for decision by that Committee) for the special bodies suggested hereafter.

This new body should proceed on the principle of enlisting for each specific task the best-qualified experience of those engaged in different spheres of the country's economic life, by the appointment of temporary *ad hoc* committees on the lines already adopted, on a small scale, by the present Economic Advisory Council.

*Advantages and Difficulties of such an Organization.*—Such a functional body would in no sense be an "economic parliament", rivalling the territorially and democratically elected Parliament. It would be a functional body, but in such a form as to be subordinate to the Executive and through the Executive to Parliament. Its character and representation, however, would give it a position of importance and prestige of its own. It would work by committees and by plenary sessions. It would be able, through its continuity, to assist succeeding governments in following a coherent and consistent line of policy. And we believe that by such a machinery the nation would be able to overcome the real danger to democratic government, which consists to-day mainly in its inability to cope successfully with economic problems and to provide stability and continuity in its attempts to solve them. An authorized account of the work of this Economic General Staff should be published periodically, and in appropriate cases the Executive should authorize publication of the Staff's reports on matters of general interest.

We realize that there are obvious difficulties and

objections to such a proposal—a possible impairment of ministerial responsibility; official jealousy; even (as the system grows) jealousy on the part of Parliament, owing to some transference of power to a functional, non-elected body; a divided allegiance of the officials, etc. We do not believe, however, that these difficulties are insuperable.

It is impossible to solve the problem that now confronts us unless we realize how complex it is, and how changed are the conditions now from those under which the present administrative machine was developed and to which it is adapted. In such a period as this, when an infinitely complex and flexible economic organization, partly private and partly public, is required, Westminster and Whitehall are not enough.

Parliament itself cannot meet the need. For Parliament—which, if our liberties are to be preserved, must remain the ultimate guardian of the public interest and the ultimate arbiter of the principles within which action must be taken—is too unspecialized; and, being chosen by election on a geographical basis, it must necessarily remain too unspecialized to prescribe in detail. It is this defect which has added such strength to the movement for so-called “Parliaments” selected on a functional basis, which are in fact not real Parliaments at all, since their personnel is in practice chosen by the Executive, and they then become either the instruments of an arbitrary régime or merely impotent. The solution can only be found in a system which provides a functional body but provides it in a form which makes it subordinate through the Executive to Parliament.

Nor can the existing Government Departments meet the need. Departmental Ministers, and their chief official advisers, are necessarily so much occupied with

the details of daily administration, the successive difficulties arising from current events, and the special problems of their respective departments, that they can neither plan long-term policy nor adequately examine and adjust the intricate interaction of measures taken separately by these departments. Moreover, for the tasks of the present, a permanent Civil Service whose members are associated only from outside with economic activities in which they have none of the responsibility of actual management, is not and cannot be made sufficient. It is not enough to incorporate the highest ability in the Service; for an essential part of the qualification for the new tasks is the intimate knowledge which direct and current experience of responsible management can give. The assistance, therefore, of those who have, and continue to have, this experience is indispensable. It can be obtained on one condition—that it is welcomed and utilized. Unless Westminster and Whitehall recognize this and change their attitude accordingly, we consider that no satisfactory solution is possible. But if they do, the objections to such a development as we suggest will disappear, and the difficulties can be overcome.

#### TASKS OF THE PLANNING ORGANIZATION

An organization of this sort would be in a position to draw up the coherent plan, to apply the “purposive direction”, without which the community will inevitably flounder from muddle to chaos. A permanent Economic General Staff would have a wide enough purview to assemble all the relative facts, while its permanency would ensure that the plan would gradually and consistently develop in a healthy continuity.

The Economic General Staff would have to take account from the outset of certain facts and tendencies. It would note, first, the recent and contemporary facts about the distribution of economic activity between industry, commerce, and agriculture, and between industries which depend mainly upon the home market (and are perhaps capable of depending wholly upon it) and those which must depend (or depend largely) upon export trade. Secondly, it would have to take into account those general trends of economic development in the world which indicate the probable line of progress for an advanced industrial country such as ours. Thirdly, it would have to study population and vital statistics.

On such a basis, the organization would begin to formulate a general conception of the direction in which it would be desirable to encourage economic development. Such a conception would be formed gradually and would change with experience. As it became translated into a tentative plan of action, distinctions would become apparent between the policy necessary during the stage of immediate economic recovery and the policy necessary for effecting more permanent changes in the country's economic structure. The planning organization would relate the first kind of policy to the second—the short-range plan to the long-range plan—and thus, with all its limitations, would serve as a most valuable guide.

Having indicated the case for creating a national planning organization, and the general purpose for which, in our view, that organization would be used, we now outline in the following chapters some of the developments which we hope to see achieved within the framework of a coherent plan.

## CHAPTER II

### TOWARDS A PLAN FOR BRITAIN

OUR interpretation of the need for “planning” has been made sufficiently clear in the last chapter. By choice or by compulsion we are constantly intervening through our collective organizations in the conduct of the economic life of the community. Since the State has set itself to lead the caravan of our civilization, we believe that the State must form some idea of its immediate destination.

What is that destination? What would we make of Great Britain? The question needs only to be asked for the impossibility of a complete answer to be apparent. We want a richer and a wiser Britain, a country of more genuine leisure and less idle misery, of greater beauty and less squalor. On such generalities we can all agree, but few could paint the picture of the ideal with any great precision. What is certain is that, before we can point the way to what might be, we must first know what is. Any Plan for Great Britain must start with the facts about Great Britain as she is.

In this chapter we do not venture to anticipate the labours of the central body entrusted with the framing of such plans. But it is an essential preliminary to any more detailed recommendations to have some rough sketch-map of the road to be followed. The planning authority would have to start with a survey

of the present state of Great Britain and thence deduce its first steps. In the briefest outline, we may do the same.

### BRITAIN SURVEYED

What is the impression which a visitor from another planet, freed from our prejudices and preconceptions, would form of the economy of Great Britain in 1935? He would find, in the first place, a community which has long ago departed from the simple satisfaction of its primary needs and has organized itself in a complex industrial structure, devoting its resources both of men and material to the most specialized tasks and importing a large part of its requirements of food and industrial raw materials from other countries. But two facts about this highly organized industrial mechanism could not fail to strike him most forcibly.

The first would be that the mechanism is working very faultily. About one-sixth of the available labour force is not being used, although it is anxious to earn its living and although the wealth it could contribute to the common pool is much needed. An equivalent proportion of the capital resources of the community is similarly lying idle or being most inadequately employed. It is clear that the economic mechanism is not making nearly the best use it could of its available resources. There is an enormous wastage going on—waste of labour, muscle, and brain, waste of capital, waste of materials, waste of opportunity. The sum-total of the wealth the community produces for distribution among its members is small in comparison with either its needs or its potentialities.

The second outstanding fact which our interplanetary visitor would notice would be the extreme

inequality of wealth existing among the different members of the community—an inequality which appears to have little to do with the social value of the contributions made. The combination of an inadequate total production of wealth and of the unequal distribution of what is actually produced results in a degree of poverty and misery at the lower end of the social scale which is an indictment both of our brains and of our hearts.

The two major economic tasks of the next generation must be to remedy these two crying defects. We must stop the waste in the economic system, and organize the system in such a way that its actual output of wealth approaches more nearly to the practicable maximum. The scandal of unemployed resources of labour and capital co-existing with unsatisfied wants must be ended. And on the other hand we must contrive to get rid of extreme inequalities of wealth and of economic power. We must build up an economic system in which men will not only in fact co-operate for the enrichment of all, but will consider themselves as partners in a joint enterprise rather than tied by the pressure of economic circumstances to a machine they neither accept nor understand.

Our double objective must be to increase both the productivity and the equity of our economic system. The two aims must march together. We cannot allow equity to precede efficiency if it means merely the equality of grinding poverty. And we cannot for long allow efficiency to precede equity if we are to preserve our society from the outraged revolt of the dispossessed.

*Foundations of Britain's Prosperity.*—Britain has in the past built herself up to a standard of material comfort rarely equalled and still more rarely excelled, by the

practical application of two economic principles. The first was the exploitation of every advantage offered by mechanical invention and scientific ingenuity. Britain was the first nation to bring the machine to the assistance of man's muscles, and throughout the nineteenth century she was the foremost exponent of the principle of the Industrial Revolution. The introduction of labour-saving machinery involves in the first place the displacement of hand labour and in the second place the production of articles in far greater quantities. It can therefore only be justified if the displaced labour finds employment in other directions and if the mass-produced articles can be disposed of. Throughout last century both these conditions were met; the displaced labour did in fact find abundant alternative opportunities for employment, while the enormously increased output of goods found a ready sale.

The second cause of Britain's prosperity in the past was the system of international interchange of goods, which she carried to greater lengths than any other large nation. Just as her great towns were growing rich by supplying highly specialized industrial products in exchange for the food and raw materials of the countryside, so the whole nation gradually transformed itself into the workshop of the world. By the eve of the Great War, Great Britain was devoting no less than one-third of her resources to manufacture for export; she imported two-thirds of her food and a large proportion of her industrial raw materials. It would be idle to deny that the system had certain social and strategic disadvantages. But it would be equally idle to deny that in the century before 1914 it brought the country inestimable economic benefits. If we had been forced to produce all our food at home, if we had been

restricted to our indigenous raw materials, if British industry, instead of specializing on those lines to which it was best suited, had had to disperse its efforts over the whole range of products, the net total of wealth available for distribution among the inhabitants of these islands would, beyond the possibility of a doubt, have been a mere fraction of what it was.

These, then, are the two principles which have inspired our progress in the past; we may call them the principles of Expansion and Exchange. The first question which the planning authority would have to decide would be whether they are to inspire our policy in the future as they have in the past. Both are now called in question.

It is frequently argued that the community has ceased to adjust itself to new developments of technical progress, that labour-saving machinery is now permanently dispossessing labour and permanently increasing unemployment, that the machine is now producing goods in masses greater than can be sold. If these statements were correct, mechanical progress would be doing more harm than good, since it would be condemning the worker to indigent idleness and impoverishing the capitalist by the cut-throat competition of a perpetually glutted market: and in that case it would clearly be necessary to cut down the excessive production and to spread the available work over the largest possible number of workers. For reasons which we set out below, we disagree with this view; we believe that with the aid of the machine the community can look forward to a continued expansion of both production and consumption; there is no reason for assuming that the limits of production have been reached or that the community must perforce accommodate itself as best it

may to the present state of affairs. Our present troubles are not due to chronic over-production; they are a phase of disorganization which if handled properly will pass away without permanently hindering the steady march of expansion.

In the case of the system of international exchange, there is no need to debate whether it is functioning properly. Its defective working is manifest. Everywhere nations are retiring within their shells. Our export trade was never in the post-war years as large as in 1913, but since 1929 it has fallen by between a quarter and a third of the attenuated volume it then had. The export trades show by far the largest and deepest pools of unemployment and stagnation. The principle of Exchange is undoubtedly for the moment less effective than it was. But international trade has not collapsed, nor would it be right to assume without argument that it cannot be restored. We must examine, carefully and objectively, both its immediate benefits and its future prospects. Even to-day we export about £400,000,000 worth of goods every year, in addition to the services our shipping, insurance, and banking industries perform for foreigners. Should we endeavour to increase our intercourse with foreign countries, accept the present total, or subject it to still further restriction? And if we decide for expansion, is there any reasonable prospect of being able to attain our object? Here again is room for debate and need for preliminary decision by the planning authority.

Let us briefly indicate the way in which we believe the planning authority would answer both these groups of questions concerning Expansion and Exchange.

We believe that there is no warrant for the fear that the age of expansion is over. In our opinion,

the world—and Britain in it—can confidently look forward to a future in which the almost infinite wants of mankind will be increasingly satisfied by an economic mechanism whose productivity will progressively increase. We are in no danger of being drowned in a flood of good things nor of being driven to the poor-house by the assistance of the machine. There is no foreseeable limit to the increasing standard of living of the masses, and by the same token no limit to the prospective market for the products of industry.

This general statement of principle needs several supplementary remarks, none of which, however, seriously qualify it. Individual industries, of course, may expand or contract, and contraction may leave a permanent or a temporary condition of over-production in those industries. Such a condition causes both depression and distress in the industries concerned, and a sound national policy will do what it can to alleviate the trouble, without keeping in existence an industry which has ceased to be economic. As railways developed, for example, there was undoubtedly distress among the industries which had grown up round the earlier forms of transport. The State might legitimately have done something to relieve the distress of the coachmen and bargemen; but it would have been an obvious misapplication of resources to attempt to keep dying industries alive. We must provide, therefore, for individual cases of over-production. But there is no reason to believe that the process of change which dries up the demand for the products of particular industries is also a cause of general distress, or that it hampers the general advance of industry. The labour and capital which have been rendered redundant are moved out into other employments. The clearest de-

monstration of this can be found in the experience of Great Britain between 1923 and 1933. In these years the country was suffering from endemic depression, the loss of overseas markets, an overvalued currency, a restrictive credit policy, and a high degree of immobility of labour. But in spite of these difficulties, new industries were growing up, and old ones expanding, so fast that they provided employment for a number of persons equal not only to those displaced by labour-saving machinery, but also to those who were displaced by the contraction of the depressed industries. Indeed, the total number of persons employed increased in this decade by about half a million. Countless individuals were left high and dry by the receding tides of industrial prosperity, but there was no sign that the volume of employment provided by industry in general was becoming limited. The effects on employment of technical progress thus constitute a social problem rather than an insurmountable economic obstacle. Changes in industrial technique still leave us with victims who must be cared for. But the expansion of the economic machine still continues, and there can be no case for a *general* policy of restriction of output. The maladjustments between Poverty and Plenty cannot be removed by doing away with the Plenty. The only possible basis on which the planning authority could plan for the future is on the assumption of an increase in general demand, which will not only absorb the goods we are now equipped to produce but make possible an indefinite increase both in production and consumption. We are not yet approaching the boundaries of economic expansion or potential demand.

The speed of expansion will, however, be seriously affected by the way in which the planning authority

answers the second group of questions; and by its choice between a revival or a further abandonment of international trade. Invention—which is the origin of economic progress—will not be affected by tariff barriers. But if the world is to develop in self-contained national units, the field in which invention can be exploited will be narrower and the rate of progress will inevitably be slower. Moreover, Great Britain is now largely organized as a trading nation. If in future we are to live as far as possible for ourselves alone, we shall have to carry out a tremendous process of redistribution of our productive resources, and all the progress of the next generation or two might well be needed to accommodate that redistribution. The industries into which the labour and capital will have to be directed would be, almost *ex hypothesi*, less efficient (*i.e.* productive of less wealth per unit of labour expended) than those which would have to contract. This must be so, for we have found it much cheaper in the past to obtain our wheat by making cotton goods and exchanging them for wheat than by growing wheat at home. If in the future our cotton workers are to be turned into wheat farmers, there will necessarily be a loss of productive capacity in the process.

Economic nationalism does not prevent *all* future progress or ultimately interfere with the infinite expansibility of markets. But it does mean, as we show below, that new methods of international trade will have to be devised, that progress will be slower, and that we shall have to devote the efforts of the next generation or so to conserving and consolidating the standard of life to which, with the aid of international interchange, we have already arrived, before we can advance further.

This reasoning could of course be applied to every country in the world. But for Great Britain the advisability of not turning aside from international trade is reinforced by another and far more urgent circumstance. Something like half of the unemployment, both of labour and of capital, from which we are now suffering is directly or indirectly due to the catastrophic decline in international trade, and it is concentrated in those industries and those areas which formerly made their livings by selling overseas. Work can be found for them, and this source of economic wastage stopped, in one of two ways—transfer or trade revival. Unemployed workers can, in the first place, be transferred into new occupations. Now to some extent this is constantly proceeding, and there has been a considerable outflow of labour—if not of capital—from the depressed areas in the past decade. But when the transfer involves, as it does in this case, hundreds of thousands of workers, entire industries and whole districts with all their social capital, their public works, and their costly transport and distributive systems, then the task is hopeless within the space of a generation. If there is no substantial revival of international trade, half of our unemployment problem is likely to remain for the next two decades as a stubborn incubus upon all our efforts towards economic progress. Whether such a revival can be secured is a much more open matter, to which a later chapter of this book is devoted.

These, then, are the answers which we believe the Planning Authority would give to its preliminary problems. Expansion in the twentieth century will possibly not be as rapid as in the nineteenth, but it will nevertheless be the dominating characteristic of

our economic life. And Great Britain will start upon this period of progress with less of a handicap, and advance more rapidly, if international trade can be in some measure rescued from the chaos into which it has fallen in the last few years.

### THE MEANS OF PROGRESS

Having made its preliminary decisions about ultimate objectives, the next task of the Planning Authority would be to work out the best means of moving towards them. The remainder of this first part of the present volume is an attempt to indicate the main lines of progress along which the various constituent elements of a rounded economic policy should proceed. We have sought to secure agreement upon the general compass-bearing of the route rather than to plot its every milestone. The next five chapters have been conceived as parts of a whole, and it will therefore be helpful, by way of introduction, briefly to indicate the place which each fills in the completed whole.

(a) *National Development*.—First among the economic duties of the State are those which by their size and scope are outside the purview of any industry or any private interest. The succession of boom and slump, the distribution of the population within the country, national and local amenities—all these are matters external to every individual industry but affecting and influencing all industries. This section of policy we discuss in Chapter III under the title National Development. It is the duty of the State to influence the public services and private amenities of the community in such a way as to increase to a maximum both the efficiency of the economic mechanism

and the social welfare of the individual. The most obvious example is the duty of the State to provide an adequate system of roads. Still more important is the establishment and enforcement of a satisfactory standard of housing. There is a growing recognition of the need to extend the sphere of State intervention to cover the whole lay-out of the country. Our population is increasingly crowding into a few large centres to an extent which is uneconomic, unhealthy, socially undesirable, and no longer justifiable by the need to concentrate on the sources of raw materials or the supplies of power. We have awakened to the need for Town and Country Planning too late, but there are still many costly mistakes in the making which could yet be avoided by wise forethought.

National Development is a matter for continuous effort and application. But in a period of depression and idleness the resources of men and material for pursuing such projects are at their greatest, while the need for capital expenditure of this nature is also at a maximum. In a period like the present, therefore, the need for a well thought out and carefully co-ordinated plan of National Development is redoubled.

(b) *Organization of Industry*.—Next comes the need for an organization of industry. The phrase is in itself a departure from earlier ways of thinking. The favourite doctrine of the nineteenth century was built upon the assumption that industry could itself provide all the organization it needed, that the less the State and public policy had to do with the running of industry, apart from a certain rudimentary keeping of the ring, the better both for the State and industry. For our part we believe that over a great part of the industrial field, and for many years to come, the enterprise and

initiative of the entrepreneur will continue to play a large part in the nation's economic life. But that belief must not be allowed to blind us to the fact that in many cases unregulated private enterprise is no longer the most appropriate or successful form of organization. In some cases industries which are faced with the necessity of reducing their size to suit an attenuated market are proving themselves unable to overcome the difficulties so long as they are composed of a large number of competing entities. In other cases the concentration of production in very few hands has made necessary an added watchfulness and new safeguards for the interests of the consumer and the State. In still other cases great industries have grown up which are recognized as being so strongly "affected with the public interest" that the State is entitled to take a very direct interest in their direction.

These problems are discussed in Chapter IV, but two preliminary remarks may not be out of place. The first is that in all our plans for the organization of industry we must never lose sight of the fact that an increasing standard of life in the future can only come through an expansion of the total production of goods of all kinds. Some of the proposals which are frequently put forward for the organization of particular industries have the deliberate object of restricting production; in all cases the placing of control in the hands of a central body brings the possibility of restricting, and can hardly fail to bring the temptation to restrict, production below what the public interest requires. Nobody who is cognizant of the existing chaos in some industries would rule out the restriction of production as a temporary expedient for dealing with the depression of those industries. But

it would be fatal to give every industry, regardless of its condition, a mandate for converting itself into a monopoly. Our course must be one which avoids the evils of anarchic competition on the one hand and restrictive monopoly on the other.

The second preliminary observation is that, since the circumstances of different industries are widely divergent, there is no one plan of organization which can be applied to all industries alike. It is unlikely on the face of it that the same prescription could apply to the cotton industry, with its over-capacity, its top-heavy finance, and its decade and a half of unrelieved depression, and to the chemical industry, centralized, efficient, and at least moderately prosperous. A uniform system of State control would be as unsuitable as the uniform application of complete *laissez-faire*. It is a much more practical line of approach to assume that there will be in the immediate future three or four main species of industrial organization with a number of varieties within each species. We have attempted in Chapter IV to sketch the main features of these leading species.

(c) *Banking and Finance*.—Closely allied to these problems and also to projects of capital expansion is the problem of monetary and banking policy, which forms the theme of Chapter V. We do not subscribe to those doctrines which hold that the sole origin of our present difficulties is to be found in monetary causes, and the sole cure in monetary reforms. But we are equally unwilling to accept the existing monetary system as perfect. Its institutions still need, in some respects, to be fitted into the framework of a society that is attempting to control its own economic destiny, while the objectives of currency and credit policy need to be redefined in view of the dislocations that have

been learned in the school of events during the last few years.

(d) *Foreign Trade*.—Chapters III, IV, and V represent our main proposals for restoring and increasing the productive activity of British domestic industry. But we place an equal reliance, so far as the immediate future is concerned, on the efforts to restore the activity of the export trades which are outlined in Chapter VI. We have frankly adopted the position that an increase of international trade is one of the most promising directions in which British economic revival can proceed. We have arrived at this position not by dogmatic adherence to any economic theory but by a plain consideration of the outstanding facts of British unemployment at the present time. The reader will find that we have not found it necessary to intervene in the controversy of Protection *versus* Free Trade. We have based our proposals on the assumption that Great Britain will continue to have a moderate protective tariff, and we have put forward certain practical suggestions for reconciling such a tariff with the continued existence and revived prosperity of our vitally important export trades.

(e) *Agriculture*.—Nevertheless, it must be recognized that an increase in exports, if it can be secured, will necessarily be accompanied by some increase in imports. Since a very large part of our imports consists of foodstuffs, a policy of reviving international trade imposes certain limitations on agricultural policy, to which we turn in Chapter VII. But it would be an entire misconception of the facts to suppose that British agriculture can only be assisted at the expense of imports. The great activity in agricultural policy in the last few years has suffered from the defect that it

has considered the welfare of the British farmer as something distinct from, and too little related to, the welfare of the community as a whole. We have attempted to assess the true place of agriculture in the British national economy and to suggest methods of assisting the industry which will fit in with, and not run counter to, the main outlines of the general Plan for Great Britain.

(f) *Social Justice*.—Lastly, in Chapter VIII, we return to the second great object of economic policy—the fostering of Social Justice. Great Britain in the course of the present century has in many ways led the world in the provision of Social Services. The great pre-War schemes of Health and Unemployment Insurance and of Old Age Pensions, together with their post-War extensions, put our country in the forefront of those which have shown their practical solicitude for the welfare of their poorer citizens.

But though the progress has been great it is still very far from adequate. We have made much too little progress in extending the range of education; the extent of poverty in our great cities is still far greater than we can afford to tolerate; there are disturbing evidences of widespread malnutrition, the horrors of the slum are only now beginning to undergo some diminution.

We have no desire to underrate the progress that has been achieved. Judged by the Budget expenditure, the scope of the Social Services is continually growing. But it is not enough merely to find money for the Acts that are already on the statute book. The rescue of the unemployed and the aged from actual starvation, the provision of elementary care for the sick, the gift of the rudiments of education to every child—these are,

indeed, achievements. But they are only a first instalment, and the time has come for their extension. Political democracy cannot for long live alongside an economic system which confers vastly different economic benefits upon different individuals. The faith of the mass of the people in democratic methods and democratic ideals can only be maintained if they can believe that the democratic State is moving, however gradually, towards the objective of Economic Justice. We must preserve that belief as one of the most precious safeguards of our liberties, and we must not, in the eager pursuit of productive efficiency, lose sight of it even for a decade. Unless we can convince the man in the street, and keep him convinced, that we are making a juster and a fairer world, for him as well as for his children, we might as well spare our efforts to increase the efficiency of the economic mechanism. For any system, however productive of wealth, however much it may increase the consumption of the masses, is doomed unless the plain man can feel in his bones that he is getting a square deal.

The architects of the Plan for Great Britain will neglect the need for Social Justice at their peril.

## CHAPTER III

### NATIONAL DEVELOPMENT

*The Case for a National Development Programme.*—It is imperative, in the present conditions of this country, that the State should put new energy into the framing and carrying out of a co-ordinated programme of development and conservation of the national resources. In particular, there is urgent need for increased expenditure on public works.

There are many reasons why such a programme is needed now.

(1) In the first place, the nation has an appalling legacy of muddle and waste to clear up. The lack of adequate planning of national development in the past is painfully apparent, especially in the industrial towns in which a great proportion of our countrymen live—towns which grew up with an anarchic disregard of convenient planning and which are still dishonoured by foul slums, still overcrowded and lacking in amenities, and still perpetually begrimed and overcast by avoidable smoke. This country's great period of industrial expansion occurred in an age when non-interference by the State in individual enterprise was the ruling principle: to-day, we have still to deal with much of the chaos left to us by the unplanned Industrial Revolution. We can only hope to do this by means of a long sustained development and conservation of the

resources of the nation as a whole, under coherent direction by the State.

(2) Secondly, the nation has to do whatever is possible to prevent needless muddle and waste from being perpetrated in future. The need both for preventive and for constructive action, to save this small, densely populated country from careless spoliation and to ensure its far-seeing development, is now a specially urgent one. For although many of our problems are being eased by modern science and invention, some of them, such as the preservation of the amenities of the countryside, are being swiftly aggravated. Here and there a little is being done to prevent reckless waste and injury, by such means as the Town and Country Planning Act, and through such organizations as the National Trust and the Council for the Preservation of Rural England. Happily, too, much of the new housing has been far better planned than the old. But the injury continues to spread at an increasing pace; and such good work as is being done for preservation and good planning is much outweighed by the irreparable damage inflicted every week through the extension of "ribbon development", the unplanned spread of suburban houses, and the rapid opening up of remote coasts and countrysides by the motor-car (see p. 61).

(3) Thirdly, there is at present both an exceptional need and an exceptional opportunity for stimulating economic recovery by means of an expanded programme of worth-while public works.

The need for such a stimulus at this time is only too manifest. Recovery from the great depression is making halting progress; both labour and capital are standing idle to a great extent; and it is certain that, whatever radical improvement in our economic system we

may presently achieve along lines suggested elsewhere in this book, in the immediate future we shall not avoid having to pass through a further period of painful transition. During that transition, the community will have the double task of caring for the unemployed, and of seeing to it that, so far as possible, labour—most perishable of commodities—is not wasted but is used to increase the real wealth of the community. At such a time as this, when unemployment pay might be replaced by the wages of socially valuable employment, and when plant and capital now lying dormant would readily respond to the radiating effect of new enterprise, the real cost to the community of producing new wealth and new amenities by means of well-designed public works would be far outweighed by the advantages gained: a programme of wise spending on capital account, within the framework of considered plans of national development, would be not only specially valuable as a means of speeding up recovery and "taking up the slack" of employment, but also specially easy to accomplish without diverting resources that are being usefully employed in other ways.

We conclude that there is need both for a *long-range* continuous programme of national development and conservation, and for a *short-range* programme by which, in times of depression, the community may expand its expenditure on useful capital works.

The long-range and the short-range programmes should be worked out by a single continuing authority, so that there may be no ill-considered effort and no conflict of purpose.

It is necessary, also, that the short-range programme should be carefully prepared in advance, so that, when the need for its application arises, there may be as

short a time-lag as possible between the decision to undertake a particular enterprise and the actual beginning of the work. At present, in the absence of any continuous planning organization, we are compelled, when a depression occurs, to waste much time in rousing the Government to special activity and in hunting up or improvising projects of public works: the whole process is apt to take so long that the actual expenditure of money comes too late to afford the maximum benefit. In this respect we should do well to follow the example of the Government of India, which has a programme of public works, prepared in advance and ready for application in times of famine or distress.

The time for launching a special programme of public works must, of course, be judged with the utmost care as well as courage. For our part, we believe that now is the time for the launching of such a programme. And we maintain that conditions are now such that a large amount of general reconstruction and recovery could be floated off, so to speak, by the impetus given through an expansion of public expenditure on capital works.

Indeed, we consider that the restriction of expenditure on public works during the past three years has been maintained just at the time when such expenditure would have been most valuable. We appreciate the reason for drastic economy at the moment when attention was concentrated upon the financial crisis of 1931, and upon the attempt, first, to keep the pound on a gold basis, and then to keep its depreciation within bounds. We appreciate also the reason for maintaining that policy of economy so long as the way was being prepared for the great loan conversion operation which was finally effected in 1932; though even during that

period there should have been, we think, a more careful balancing of the opposing arguments for and against permitting productive expenditure. But for some three years now none of these reasons for restriction of such expenditure has been valid. Yet it is during these three years that the policy of discouraging needed public expenditure has been having its maximum effect. That effect is not to be measured solely by the extent of the schemes actually submitted, by local authorities and others, and turned down at the instance of the Government; the policy of discouraging expenditure on public works has also had the effect of preventing a great many schemes from being prepared or submitted. We regret that this policy of discouragement, reasonably begun in 1931, was not replaced by an active policy of encouragement from the end of 1932. One consequence has been that, amongst those engaged on public works, there has been a large increase in unemployment; and this increase has occurred at a time when other classes of unemployment have shown some improvement, and when even the export industries (which are those least amenable to control) have not further deteriorated. It is a challenging fact that, in the whole internal economy of this country, the one large field in which unemployment has seriously increased during this period has been just that one for which the Government bears a direct responsibility.

*Criticisms of Public Works Policy.*—Before outlining the kind of public works policy that we have in mind, we may explain why we do not accept as valid the objections often raised against such a policy.

(1) It is often argued that the policy has already been tried and found wanting. We reply that the policy has not been fairly tested under proper conditions.

Certainly, a considerable programme of public works was tried for a short period before the financial crisis in 1931. That programme undoubtedly provided employment for a large number of men. But unfortunately it was put into operation at a time when credit conditions were relatively unfavourable, when the gold standard was in operation, and when all the cumulative forces of the trade cycle were working in a downward direction. A deflationary monetary policy was being applied in the hope of preserving the exchange level of sterling; and the effects of this deflation went far to cancel out the benefits of the industrial expansion which in other circumstances would result from the programme of public works.

Moreover, the experiment at that time was tried without any provision, such as we advocate, for industrial reorganization and other measures for increasing the adaptability of the economic system. Certainly, the public works policy, under the conditions of that time, did not solve the unemployment problem; but no informed person ever supposed that public works alone could do this.

Lastly, the programme of public works in 1930 and 1931 was not made part of a coherent plan of nationwide development such as we contemplate.

A public works policy inaugurated now, when money is cheap and plentiful, and we are not in danger of being constrained to adopt a policy of deflation through fear of gold exports, would have a very different environment from that in which the earlier experiment was tried.

(2) Another objection sometimes advanced against the expansion of public works is that there are no "worth while" public works to be undertaken.

We reply that, on the contrary, there is an abundance of "worth while" work crying out to be undertaken; but that the criterion of what is "worth while" must of course be appropriate to the budget of a nation, not simply to the ledger of an individual. To an individual business, an enterprise is "worth while" only if it yields a direct financial return exceeding its costs; the individual business cannot afford to allow, on the credit side of its ledger, for service to the general public without such return, or for saving in unemployment pay, or for any stimulus to socially desirable activities. But the community may properly allow for all these factors; and for the community which can make such allowances, many public works are "worth while" which, in the strict accountant's sense, "do not pay".

Of course, when we advocate a programme of public works, we do not mean "relief work" of a kind that is useless in itself and is undertaken solely for the employment it creates: we mean work valuable in itself to the community.

### A NATIONAL DEVELOPMENT POLICY

We assume, then, that there is a very strong case both for an immediate programme of useful public work and for a long-range plan of national development and conservation. What kind of work should be given priority? What kind of development and conservation should be planned and provided for? And how should this policy of national development be organized and financed?

*A. A National Development Board.*—For the organization required, we advocate the establishment of a

National Development Board, charged with the duty of promoting a long-range programme of national development and conservation, and a programme of useful public works available for use whenever required. The Board would work under the direction of the Government Planning Committee and in the closest collaboration with it and with the Economic General Staff referred to in Chapter I, and with the National Housing Commission referred to below, so as to ensure that the schemes of development adopted should fit in with the long-term direction of economic policy and with the work of the Housing Commission.

It would be the duty of the Board to have ready at any time a schedule of approved and useful projects of capital development. Some expenditure of this kind is desirable at all times; road building, for instance, must proceed constantly. But other expenditure on public works is, as we have argued, specially desirable for temporary use in periods of depression; and the Board, with its prepared list of approved projects, would be able to expand its operations in times of depression and contract them in periods of prosperity, without that loss of time or that lack of preparation and co-ordination which is otherwise inevitable.

B. *Financing Public Works.*—The methods of financing projects of development should vary, like the extent of the public works programme, in accordance with the condition of trade. In a time of depression, one of the virtues of public works is that they provide employment: their remunerativeness shows itself in the decline of the cost of unemployment and in the buoyancy of revenue arising out of their secondary effects in stimulating industry. Consequently, it is proper, in times of depression, to finance

works of this nature by raising loans charged on the general revenue—that is, by ordinary Government loans. But in normal and prosperous periods it would probably be more prudent finance to prevent national development from becoming an indefinite charge on the Budget. A grant for the purpose might indeed be made out of the national revenue, but even without this the National Development Board could be a self-financing body. It might derive its funds from specific taxes allocated to it. For example, it might take over the present responsibility of the Ministry of Transport for planning and financing all new roads construction, as distinct from routine maintenance, and for this purpose part of the Road Fund should be allocated to it. The largest source of its revenues would, however, be a tax imposed on property values enhanced by public action. The potentialities of this device of financing are very large. In many cases the entire cost of an improvement could be recouped out of the enhanced property values. Many years ago the City of New York undertook a large scheme of improvement by electrifying and covering over the railway line which runs down the centre of Park Avenue. As a result a street of poor tenements was converted into the foremost residential avenue of the city, and the whole cost was recouped in a short time out of the increased yield of the property tax. There are endless places where the principle of recoupment could be applied with rich results in Great Britain. The area on the south bank of the Thames in London between Westminster Bridge and London Bridge is an outstanding example. A thorough reconstruction of this area, potentially one of the finest sites in Europe, combined with the Charing Cross Bridge scheme, could probably be made to pay

for itself entirely, if only it were possible to levy tribute for the purpose on the values that would thus be created. There is an immense field for useful work in reconstructing our ugly cities and in abolishing the mean sordidness which so frequently characterizes them.

C. *Electrification*.—We turn now to the consideration of what kind of public works should be undertaken. We must pass over the many proposals for such purposes as further afforestation, reclamation and drainage of land, extension of the telephone system, and (though it is of urgent importance) the improvement of water supplies in rural areas and the prevention of water shortage generally. Electrification offers an enormous field for useful work of this character. We have had an object lesson in recent years, through the construction of the "grid", of what can be accomplished by the prudent use of public credit and the co-ordinating authority of the State. But the construction of the "grid" represents only a small part of the field for electrical development. We suggest elsewhere that the electricity supply industry should come high on the list for public reorganization and control. If this were done a great deal of capital could be very remuneratively invested in taking cheap supplies of electric current to every corner of the country where they can be profitably employed. Many poorer and less densely populated countries than our own stand as examples of the progress that can, and should, be made in Great Britain before the potential demand for electricity is fully exploited.

Another, though more contentious, example of large-scale enterprise which might be undertaken is the electrification of the railways. Four years ago a Committee with expert knowledge and unexampled

authority, consisting of Lord Weir, Sir Ralph Wedgwood, and Sir William McLintock, expressed the view that a comprehensive programme of railway electrification would pay, and in the ensuing four years nothing has happened to alter materially the basis of their calculations. On the other hand, the railway companies have recently expressed the belief that large-scale electrification would not be sufficiently remunerative to make it worth while for them as private companies. But even if this view is correct—and it is expressed by those in the best position to know the facts—it does not necessarily follow that thorough-going electrification would not be "worth while" when judged by the wider calculus appropriate to the community as a whole. We do not feel competent to express an opinion upon a matter of technical fact. But we urge most strongly that such a wide divergence of expert testimony should be resolved, and the question authoritatively settled, as soon as possible. We welcome the scheme which is to be carried out in North London by the London Passenger Transport Board and the main-line railway companies with a Government guarantee for the necessary capital. Even if the verdict of the experts should go against main-line electrification, there are many important local and suburban schemes similar to the North London project which could be put in hand without delay.

D. *Housing*.—The other great sphere for public enterprise is housing, and there will be little dispute that there are few directions in which public action and expenditure are more urgently desirable.

The need for a housing policy planned on a national scale is both temporary and permanent. There is at the present moment an urgent need both for houses of a

certain type and for the fertile expenditure which new house-building entails. But to attain anything like an acceptable standard of housing throughout the country will necessitate a programme involving occupation for the building industry for decades to come. The most pressing immediate need is for an increased supply of houses which can be *let* at rents within the means of the average wage-earner and of the lower-paid wage-earner in particular; and by far the largest part of this need is for urban housing. For this urban housing, we need a vastly increased supply of houses which can be let at rents, inclusive of rates, not exceeding 10s. a week. Even this sum is beyond the means of large sections of the people, especially of agricultural labourers and of many workers, both urban and rural, with young families to support. The capacity to pay rent depends on the double factor of the tenant's income and the number of persons dependent on it. To meet the need of those who cannot be expected to pay economic rents, housing subsidies are still necessary; and in the case of municipally owned houses it may well be found desirable to fix differential rents (*i.e.* a standard rent subject to rebates granted to individual tenants according to their means or family circumstances). This method has been authorized by the Housing Acts of 1930 and 1933 and is in use in a number of municipalities.

In the following pages, however, we leave aside the problem of rural housing, important though it is, and deal only with that of providing houses in or close to the towns, at a rental not exceeding 10s.

The present economic and financial situation, combined with the Government's housing policy, has resulted in a considerable expansion of building, by

private enterprise and without cost to the public, of houses for *sale* on the instalment system or for *letting* at inclusive rents of from 15s. to 25s.; and this type of house has been meeting the needs of the clerk and the better-paid artisan. At the same time, the Government has been attempting, through local authorities and with the aid of the Exchequer, to abolish slums and to provide, in replacement of them, houses and flats which satisfy a certain reasonable minimum standard of requirements. But there remains unprovided for, either by this private building or by the subsidized slum replacement, the demand for houses to let at not more than 10s. a week. That is the principal housing need of our day, so far as urban housing is concerned.

The problem of getting rid of the slums themselves is a very big one; but still bigger is the problem of dealing with overcrowding in houses which are not unsatisfactory in themselves but which were designed for a much smaller number of residents than they now have to contain. This problem of overcrowding can only be solved by the provision of a large number of additional houses available for letting at low rents. Whereas private enterprise is successfully coping with the demand for the more expensive classes of houses, it is not dealing with this, the cheapest class of urban house. It is true that about one-third of the houses recently built are technically classed as "C" houses, i.e. as rateable at not more than £13 outside the London area and £20 inside it. But most of these "C" class houses are available only for sale and not for letting; the great bulk of those which are for letting are to let at inclusive rents of more than 12s.; and the number which are to be let at 10s. inclusive, or less than that, is negligible. This failure of private enter-

prise to supply the cheap houses that are needed is inevitable under present conditions, since the building contractor has to pay 1½ per cent to 2 per cent more for his capital than the Treasury or a first-class municipal authority would have to pay; and without some centralized organ of control, any expansion of building may always have the effect of putting up the cost of building material and other costs. Under these conditions, the production of the 10s. house on any large scale is, and must remain, impossible for unassisted private enterprise. Yet the present time offers an exceptional, perhaps unique, opportunity for the provision of such houses on an economic basis and without public subsidy, except where rates or ground values are especially high. At present, capital is cheap; when it is secured on public credit, it can be obtained now at about 3 per cent. The cost of materials also is abnormally low. Moreover, the general economic situation is such that activity in the building trade is of the utmost general benefit, for reasons we have already indicated. The movement of recovery still needs a stimulus. Capital is lying unutilized in such amounts that it could be made available for building purposes without any restriction of the supply, or any increase of the cost, of capital for private enterprise in other fields. Labour also is unemployed and is available in quantity. The building trade happens to be a peculiarly suitable channel through which to convey such a stimulus to further recovery as is now required. It occupies a key position in the general economic situation. It provides direct employment, in a proportion which is exceptionally large in relation to costs. The building trade has, to an exceptional extent, a radiating effect upon other industries, since it in-

creases the demand for the products of many industries and so spreads prosperity widely among them. It is of the utmost importance, therefore, that the building trades should be actively employed. For the last few years private enterprise has, as we have pointed out, been providing a certain class of houses at a rapid rate. It is improbable that expansion on these lines will long continue, and there is considerable danger that, as enterprise in this direction ceases to be profitable, there will be a slump, which would have disastrous and far-reaching effects on general recovery. We therefore consider it essential, not only for the promotion of further recovery but even for averting a set-back, that the building of the cheapest class of houses, for which there is a large unsatisfied demand, should be pressed on with by public action.

But if an adequate building effort of this kind is to be made successfully, several conditions must be fulfilled.

First, the financing of the enterprise must be centralized, and arrangements must be made, with the aid of public guarantees under suitable conditions, to secure capital at the same rates as those on which the Treasury can borrow.

Secondly, there must be a central organization to secure that building materials are obtained at the lowest rates possible with large-scale purchases. The central organization must also be empowered to take steps to prevent any unjustified increase in prices for building materials. (For example, if the price of a particular material showed a tendency to rise unjustifiably, the increase might be countered in the first instance by the suspension of any tariff or other impediment to the importation of that material from abroad.)

Thirdly, the new building must be "planned" in a double sense. Its general geographical situation on the national map must be directed by a national Authority in relation to general economic policy (as was suggested in Chapter I). And in addition, the housing must be locally controlled with due regard for local interests,—the interests of public amenities, public safety, efficient transport, and the avoidance of unnecessary expenses upon public services such as drainage, etc. We need hardly emphasize again the bearing of this upon that most wasteful kind of house-building, "ribbon development" (see p. 58).

All this will necessarily involve a great work of central planning and control. We believe that such a task cannot best be dealt with, except temporarily for the immediate need, by a branch of a ministry organized on ordinary Civil Service lines and largely absorbed in other duties. We believe that a National Housing Commission is essential, and that the Commission should have a whole-time chairman of high standing and expert knowledge, with a status different from that of the head of a branch of a Government Department. The National Housing Commission would, of course, be responsible to the Government and, in particular, to the Planning Committee of the Cabinet and the Economic General Staff suggested in Chapter I. It would necessarily work in the closest collaboration with the National Development Board.

We realize the difficulties, as to ambiguous authority, etc., that are involved in this proposal; but experience in other spheres (*e.g.* the London Transport Board) has shown that such difficulties are not insuperable; and we are convinced (as we argue elsewhere) that the new economic tasks confronting government in our time

necessitate an extension of the machine of government by the association, under appropriate conditions, of specialized bodies with a different constitution and status from the customary branches of Government Departments. We recognize also that there must be room in an organization of the sort we contemplate both for central direction and for local initiative. We have no desire in any way to limit the admirable enterprise shown by many of the local authorities, especially some of the large municipalities. But it is clear that a satisfactory housing policy can only be formulated in its main outline on a nation-wide basis. It is not appropriate in a summary discussion such as the present to attempt to delimit precisely the functions of national and local bodies, and it is sufficient to repeat that both are needed and can, we believe, be fitted without difficulty into the pattern of a vigorous and coherent housing policy.

We have thought it well to set out what we consider to be the main conditions and principles of a satisfactory effort to deal with the shortage of houses available at low rents before commenting upon the new Housing Bill recently introduced.

We recognize that there is now an extremely strong case, in London and other excessively large cities, for the building of working-class homes in the form of blocks of flats. For workers whose occupation is necessarily in a great city, well-designed and amply spaced housing of this kind is often far preferable, both from the individual and the social standpoint, to housing in the shape of multitudes of detached cottages in country which should be the rural neighbourhood of the city. In so far as it will encourage the building of flats in such cases, we welcome the new Bill.

But, on the other hand, we consider that this Bill is in some respects based upon the wrong principles, and that it is inadequate to deal with the vast problem involved. It is unrelated to planning on any wider basis than that of existing local authorities. It provides no organ of administrative machinery such as is necessary, in our view, for envisaging the problem as a whole (since the Advisory Committee proposed in the Bill will have neither the functions nor the status required). In the absence of correction and guidance by a general plan, and other measures to secure the execution of that plan, the subsidies proposed in the Bill will, we believe, regrettably discourage any tendency of industries to move out of congested areas, by relieving their workmen, and therefore their wage-bills, of the extra expenses resulting from a situation on expensive sites. The Bill will tend to increase or maintain site values in these areas. And we consider that the Bill will prove so expensive and difficult in execution as to make its application both slow and inadequate in scope. We consider, therefore, that the Bill needs to be replaced, or at least supplemented, by legislation on a much broader basis.

E. *Roads.*—There is still, we consider, a great opportunity for useful extension and improvement of arterial roads, though a great development in this respect has of course been made since the War. The admirable system of by-pass roads should be extended; and the new roads, protected by the prohibition of ribbon development, would add considerably to the mobility of transport. Many narrow and congested routes should be widened. Bridges should be provided in place of level-crossings; and existing bridges should, in many cases, be strengthened and widened. Recom-

mendations to this effect were made unanimously by the Road-Rail Conference in 1933, and the development is obviously much needed, in these days of rapidly increasing motor transport, in the interests both of efficient transport and of public safety.

It may be asked how such a development of the road services is to be financed. This involves no real difficulty. The annual cost of building and repairing roads, high as it now is, is not merely covered by the taxation levied on motor traffic; it is much more than covered; the surplus would suffice for a large expansion of road services. Such expenditure should not be classed as "onerous" to the road users, but as "beneficial" to the public as a whole, and especially to those who use motor-cars. Motor users are receiving good value for the special taxes they pay, as will be realized by anyone who has had experience of motoring in a country with inferior roads and who has calculated his tyre and repair costs under those conditions.

The net charges on the public revenue in respect of road expenditure could have been substantially reduced but for the folly to which we have already referred, of abandoning to private landlords the new values created by the new roads built with public money. Much of this extra value has now been irreversibly lost to the public, but there is no reason why such losses should continue when new roads are constructed in future. Indeed, we regard it as essential, not for financial reasons only, but in the interests of public amenities and public safety and for the convenience of road transport itself, that the Government should henceforth control the consequences of its policy and expenditure on the roads. It should take powers to reserve for the community that incre-

ment of value which results from public expenditure on the roads.

We welcome the new Bill on Ribbon Development (May 1935). We fear, however, that the practical use of the powers it provides will be unequal and often tardy, owing to the extent to which that use depends on the initiative of local authorities. We suggest that main trunk roads—both existing ones and those which may be constructed in future—should be made by and at the expense of the Central Government; in such cases, the new powers should be exercised directly by the Government, only the maintenance of these roads being then left to the present highway authorities.

*F. Schemes of Local Authorities.*—Besides housing and roads, there are very many other kinds of public works which should now be promoted. We welcome recent evidences that this is recognized by the Post Office and that a substantial programme of expansion is being undertaken. We welcome also the signs of a more active policy at the Ministry of Transport. But we urge that the change of attitude should be carried very much further. In particular, we hope that the Government will reverse its recent policy in regard to enterprises undertaken by local government authorities. Since the financial crisis of 1931, the local authorities have been discouraged by the Government from proceeding with the many and varied enterprises which they had in view: the resumption of such enterprises should be actively encouraged.

*G. Encouragement of Private Works.*—Nothing that has been said of the many ways in which the State could put useful and remunerative works in hand detracts in the smallest degree from the desirability of welcoming and encouraging the revival of private

industry and commerce. We do not suggest that the State should raise so much capital in the market for Public Works that capital becomes scarce and expensive for private works. We have no fear of this happening in present circumstances, since there is obviously a large supply of savings now available for which private industry is making no demand. What we have in mind is that the National Development Board, in pursuing its Public Works policy, would always keep an eye on the extent of private capital development and regulate its programme of activity accordingly.

But watchful waiting is not the sum total of what should constitute the State's attitude to private industry; there are many varieties of positive assistance that can be given. The principle of the Trade Facilities Acts, for example, is doubly useful in depression, for the rates of interest at which borrowing can be effected with a Government guarantee are lower, while many firms which in the long-run are undoubtedly profitable have current earnings during a depression which make borrowing on their own unaided credit expensive and difficult. The scope for Trade Facilities Acts is not unlimited, but we believe that it should be exploited to the full during times such as the present. Another scheme of the same general character which has achieved considerable success and should be extended is the Export Credits Guarantee Department.

Public policy might, in theory, go beyond the loan of its credit and guarantee. Part of the justification for works of capital development in times of depression is that they assist the Budget by diminishing the cost of unemployment relief and by swelling the revenue. But these are matters which no private concern can take into account; works which are profitable to the com-

munity may not be profitable to the private interest undertaking them. This difficulty could be got over if the State subsidized private capital developments during a depression, *e.g.* by lending funds to industry at less than the market rate, or by remitting part or all of income-tax on that part of a company's allocations to reserve which is spent on capital extensions. There are obvious difficulties in the way, and the need for avoiding the dangers of such a scheme—the unfair subvention of one firm in a competitive industry, the risks of fraud, the risk that the State's assistance might merely go to swell profits, the difficulties of definition—might compel its limitation to industries which are wholly or partly under public control. But this is a line of thought which has been largely ignored hitherto and would be well worth exploring.

We are informed that, in the sphere of railway works, a very large expenditure could with advantage be undertaken immediately; the arrangements as to such expenditure which were made with the Railway Companies in 1929 are now coming to an end, and new arrangements with the companies might well be made on a similar basis.

*H. Town and Country Planning.*—The need for coherent national planning, on a scale sufficiently large to cover the whole country, can be illustrated by many examples; but no example is more striking than that afforded by the lack of any nation-wide scheme of town and country planning.

At present, several areas have managed, with great difficulty, to put in hand local schemes for the planning of building development, the reservation of land for agriculture, and the reservation of open spaces. But these efforts cover only a fraction of the country, and

many areas where the need for the preservation of public amenities is most urgent are still without any safeguarding plan. In some cases, local authorities are dissuaded from undertaking a regional planning scheme, simply owing to a short-sighted reluctance to incur the relatively trifling expense involved in obtaining expert assistance for the preparation of the plan. In many cases, local vested interests have been allowed to stand in the way or have had the effect of mutilating the plans adopted. A broader view of the interests of the country as a whole must be taken and must be made effective. In this small island, we cannot afford to leave to local initiative, however energetic, the task of safeguarding such rare national assets as the small area, only thirty-five miles across, which comprises the Lake District. In spite of the recommendations of the National Park Committee three years ago, nothing has yet been done, by national action, to preserve as "National Parks" any of those stretches of country, such as the Cairngorms, the Cuillins of Skye, the Great Wall, Lakeland, Snowdonia, Dartmoor, the New Forest, Dovedale, the South Downs, and parts of the Cornish and Pembrokeshire coasts, which the nation should safeguard as a precious inheritance. The need for action is a new one in every country, owing to the annihilation of distance by the motor-car, and in our country the need is peculiarly pressing owing to the density of the population, the smallness of the island, and the depressing character of many of the cities which we have inherited from the days of the Industrial Revolution.

We do not suggest that a central national authority can replace the local authorities, in working out the details of town and country planning. Nor do we suggest that the powers which local authorities might

exercise under existing Acts of Parliament are negligible; those powers are already considerable, and they are being used now more extensively than ever before. But we do urge that the present rate of progress is far too slow, and that the work of planning for the good use of the land of England, Scotland, and Wales should no longer be dealt with entirely in compartments. Already, we deal with electricity supply, afforestation, transport, and other services on a national scale; it is time that we dealt on a national scale with the geographical distribution of our people and our industries, as well as with certain "imponderables" of immense importance to the nation's life, such as access to mountains and open spaces. At present, we lack not only the central organization, and in very many cases the local organization, and the legislative authority, but even the up-to-date survey on which comprehensive town and country planning should be based. The present method of approach is too piecemeal and too parochial. We recommend accordingly that the National Development Board should be given a general oversight of the planning of the face of the country.

But this is pre-eminently a matter which cannot be run from Whitehall. The National Development Board should, indeed, lay down general principles of policy in which the valuable experience already gained by such bodies as the Council for the Preservation of Rural England and the National Trust would be availed of to the full. But the bulk of the executive work must be done locally. Unfortunately, the areas of local authorities are frequently far too small for proper planning to be possible. The development of transport and communications is gradually fashioning economic units which in many cases cross even county boundaries.

The Birmingham-Wolverhampton-Coventry area, for example, covers parts of three counties and several county boroughs, and there are several other integrated economic units which are already larger than the area of any single local authority. If they are not to become sprawling muddles, they must be dealt with as units. There is consequently need for a planning organization on a scale midway between the national and the local. This need for new geographical units is being felt in many directions and the country is already divided into "regions", usually numbering about a dozen, for a variety of purposes (*e.g.* the Electricity "Grid," the Traffic Commissioners, several of the Agricultural Marketing Schemes). The same solution is obviously indicated in the present case and steps should be taken to set up Regional Planning Authorities for regions covering a number of counties, formed either by co-operation between the constituent local authorities or else directly constituted.

The Planning Authorities need to be equipped with both positive and negative powers. The latter are perhaps more urgently necessary. We have already referred to the urgency of the need to prevent "ribbon building" along the exits from towns, and to the need for speedy action to preserve such areas as those we have mentioned on p. 62 from anarchic building. Even as we write, irreparable damage is being done. The nation simply cannot afford to allow this anarchy to continue, and, as we have said, we cordially welcome the first step to deal with part of this evil, which is being taken, as we write, in the new Ribbon Development Bill.

But even complete negative powers are only the merest beginning. It is not enough for a public authority

to be able to veto a proposal because it does *not* fit in with the public plan. There should be some way of encouraging developments which *do* fit in with the plan. We are living through a technical revolution which makes it possible to change the entire appearance of the country. Until very recent times it has been necessary for the industrial population to crowd together in large urban agglomerations so as to be close to the power or raw materials with which they worked, while the commercial population has always been concentrated in the towns because of the difficulties of communications. But in the last few decades these compulsions have been lifted one by one. The decline in the comparative importance of the heavy industries and the rise of light industry has made proximity to raw materials a matter of comparatively little importance. With the development of electricity, power has become highly transportable. The telephone and the amazing development of road transport have immensely improved communications. Radio and the cinema have given even the remote country town social amenities greater than were enjoyed by the large city only thirty years ago.

The middle-class town-dweller has been quick to make use of his new freedom of choice. He has moved out from his home in the town—often a noisy and smoke-darkened home, highly rented, in a town with few amenities—and he has settled in new suburbs which now spread far into the country. In some respects this migration has been very salutary; but no one who has travelled through the newly built-up areas, especially around London, can help feeling that ruinous and permanent injury to the amenities both of the country and of the town is being inflicted by this thoughtless

spawning of little house-boxes, mile after mile, between the heart of the town and the unspoilt country.

Much of the new building, promoted by speculative builders and permitted without regard to any comprehensive plan, is not only shoddy in material and monotonous in design, but also wrongly placed. If such building had been controlled in accordance with a far-seeing design for the development of the entire area around London, the new houses would surely have been located with far more care for the preservation of intervening stretches of land wholly free from new building, and with far more regard for the growth of communities with a local focus for an independent life of their own. Moreover, some of the land now built upon would have been reserved, under such a design, for intensive horticulture for the supply of the London market.

Whilst the middle-class town-dweller has moved out into new suburbs, industry has also been growing in what were recently country districts; in particular, the new industries have largely settled in semi-urban districts in Southern England and at the expense, frequently, of the old industrial areas of the North. This migration, like the town-dweller's migration, has had some very injurious social consequences and has been almost wholly unplanned. It cannot be good policy, from a national standpoint, that money should be lavishly spent upon moving industries into newly built districts—contiguous with an already over-grown metropolis—if those industries could be carried on as well, or almost as well, in the inadequately utilized towns of the North and West. The industrialist may locate his industry wherever he pleases; but the plant and the population of Jarrow, North Shields, or

Wallsend cannot be relocated except to a very limited extent and with enormous loss and suffering.

There is thus a national interest in locating new industries in these towns to offset the private industrialist's preference for the new suburbs of London. On a longer view, indeed, it would probably be of social advantage that industry should be further decentralized, a few industries being established as the nucleus of garden cities of which the inhabitants will be mainly persons dependent either directly upon these industries or on the secondary occupations which they occasion. Any such development, however, needs careful planning by a public authority, as regards both the location of such small towns and their construction, and effective means of securing development in accordance with the plans so made.

Thus the rôle of the State in directing the location of industry will have to become more extended: it will presumably have two sides, a positive and a negative one.

On the one hand, the State will have the positive task of encouraging industry, by direct and indirect means, to settle in particular places. It can give such encouragement indirectly in many ways, *e.g.* by subsidizing the housing of the workers in the industry. And it can also give encouragement directly.

If the Planning Authority has power not merely to locate the site of a town on the map, but to buy land, to build houses and factories, to offer attractive terms to industries which will settle there, to construct the rapid transport lines, to supervise the growth of the town, the development will be far more rapid. Here again we are perhaps looking rather far into the future. But a beginning should at least be made, and the Regional Planning Commissions

should be given power to raise capital, to buy land and to initiate building and transport schemes. This proposal is, after all, no more than the transference to a larger scale of the enterprise already shown by some of our larger municipalities—as for instance by the City of Manchester in the development of the Wythenshawe estate, or by the City of Leeds in the ambitious rehousing schemes now on foot.

But if this policy of positive encouragement of a relocation of our economic activities must necessarily be a matter of slow development, the State can in the meantime at least forbear from exercising its influence in the wrong direction. An instance can be taken from the present Government's Housing Bill. That Bill introduces the principle of a special subsidy for the rehousing of workers where the land is particularly costly. Some assistance of this sort is essential if the slums of London and other large cities are to be cleared and the present inhabitants rehoused on the spot. But subsidies may easily be given in such a way as to perpetuate the conditions of congestion which make them necessary. When an industry settles in a crowded district where rents are high it has, other things being equal, to pay higher wages than its competitors in other parts of the country. It is notorious that wages in London are higher than elsewhere, and this fact must be to some extent a deterrent to industries against settling in London. But if rents in London are to be brought down to the general level, this deterrent will disappear. By giving special subsidies the State is taking on itself part of the social cost involved in urban overcrowding. The remedy is not, we suggest, to abolish the special subsidy, but to make it payable to any industry *now* situated in a congested area which is willing

to move out to selected areas and so save the cost of providing housing on expensive sites for its workers, and to offer other substantial financial advantages through relief from taxation and rates to *new* industries which will go into areas, selected by the State as suitable, where land is relatively cheap and especially where planned provision for housing is being made, as in the garden cities. If it is worth while paying a special subsidy to rehouse the slum dweller in the East End, it is far more worth while paying the same subsidy to re-employ and rehouse him in small towns already established in rural or semi-rural Essex or Hertfordshire. There is very little doubt that if inducements were given to industries to locate themselves outside the main centres of population—better still in the depressed areas—there would be a corresponding saving on urban housing subsidies, or the cost of unemployment. The whole subject of influencing the location of industry is a complex and obscure one which would have to engage the earnest attention of both the Economic General Staff and the National Development Board.

We have touched in this chapter only on the fringes of the vast subject of National Development. Properly conceived, a programme of National Development could be the embodiment of the social conscience. Looked at from the economic angle, it should be the outcome of a determination that the available resources of the nation shall not rot and waste in idleness merely because profit-making industry is temporarily unable to find them work to do. From the social point of view it is a resolve that some part at least of our efforts shall be consciously directed to the conservation and enrichment of the countryside.

## CHAPTER IV

### THE ORGANIZATION OF INDUSTRY

#### THE NEED FOR ORGANIZATION

THE need for a thorough-going policy of industrial reorganization must be obvious to even the most superficial observer of our present economic condition. What we know as industry is the foundation of our national wealth; it is the organism by which we have so greatly expanded our productivity that we can support our very large population at a standard of living which, inadequate though it is, is at least higher than that of any previous century. Industry has many disadvantages: it is too frequently the foe of craftsmanship; it has necessitated, until the present age, the growing concentration of the people in grimy cities; it has been attacked by the idealists ever since Blake wrote of "dark Satanic mills". To counter these complaints industry needs the full force of its overriding advantage—its unlimited power to multiply the supply of the material goods of the world. Whether from a social or an economic standpoint, industry depends for its justification entirely upon its productive efficiency.

It is precisely in this respect that our present industrial system is unsatisfactory. We know that if all our resources of men, materials, and machines were fully occupied, we should be able to provide a minimum

standard of food, clothing, shelter, and elementary amenities for every citizen of the nation. We know that we have the industrial capacity to abolish the extreme poverty which still anachronistically afflicts something like a quarter of all our families. But the industrial system is out of joint. For every five men and women whose willingness and capacity to labour are availed of, there is one in involuntary idleness. Clearly, we have the available labour for a great increase in the output of our industry, even without an increase in the technical efficiency of industry; and though the increase would not be sufficient to introduce the leisure state of the philosophers' dreams, it would at least make all the difference between destitution and a decent standard of living for millions of the workers.

The case for reviewing our general economic system is thus enormously strong; and not the least important part of this review must concern the structure of industry.

Our chief reliance in the past for maintaining the productive efficiency of industry has been upon the self-regulating mechanism of a competitive economy. The direction of industrial development and the economic welfare of the nation rested upon the decisions of individuals seeking profitable opportunities for the investment of their resources. Under that system the necessary adjustments to changing market conditions generally took place fairly rapidly. The weak or redundant units were forced out of production by the process of "healthy bankruptcy". Capital and Labour were diverted with greater ease and mobility than to-day into new channels of production, though they were not, of course, by any means always directed into the right channels. The fluctuations of prices and

of employment did, indeed, inflict hardships in the process of adjusting the structure of industry to the changing pattern of demand; but the miseries of unemployment were of shorter duration and perhaps more endurable because of the prospect of speedy recovery.

It is doubtful whether the system of free enterprise ever worked quite so smoothly in practice as in theoretical description, and it is quite certain that it is not working smoothly to-day. But we must be careful not to exaggerate the defects of free competition. There are many industries, perhaps the majority, where even to-day the natural competition of independent individuals results in an equilibrium between demand and supply, where the capacity to produce is approximately adjusted to the demand, and where the producers are neither being ruined by undercutting nor enriched by excessive monopoly profits. The system is suffering from certain grave and crippling defects rather than from complete breakdown. Nevertheless, the defects are sufficiently serious to demand immediate attention.

There are many causes for the decline in the efficacy of profit-seeking competition as the sole regulator of the industrial machine. The growth of mechanical methods of production has diminished the elasticity of adjustment which characterizes an economy of smaller units. The large minimum amount of capital which is necessary for entering many industries confers a semi-monopoly on those already in the industry. The steadily growing importance of machinery in the productive process makes it far easier to create a temporary over-capacity and far more difficult to escape from its consequences. Again, the corporate organization which accompanies the need for great accumulations of capital

frequently diminishes the elasticity of mind of those in control. The managing director of a huge limited liability company cannot abandon old paths and bravely strike out on new paths nearly as readily as the old private industrialist who owned all he controlled and controlled all he owned. Labour too is much less mobile than it was. Workers were formerly diverted from dying industries to expanding industries by a fall of wages and a growth of unemployment in the former and the offer of higher wages and steady work in the latter. It was a cruel system, and from the social point of view we welcome the fact that Trade Union insistence on the standard wage and the provision of unemployment benefit at standard rates for all industries have blunted its cutting edge. But as a means of ensuring the adjustment of productive capacity to the changing circumstances of demand it was a very effective system, and we have not yet evolved an equally effective substitute. Both Capital and Labour, then, are less capable of moving from one section to another of the national economy—and adjustments are correspondingly harder to effect.

Since the War we have had the new phenomenon of large industries suffering from an apparent over-capacity to produce. We are not here directly concerned with the way in which this "over-capacity" arose—it is due in part to war-time over-stimulation and in part to the decline of our export trade. Nor are we concerned with its effects, except to note that they have seriously demoralized whole industries, depressed labour standards, made profit-earning impossible, and led to cut-throat competition and broken markets. What we are concerned to point out is that the régime of free competition is making little progress towards restoring

equilibrium out of the prevailing chaos. The "healthy bankruptcy" upon which the theorist relied often does not happen where it is most required. In an industry where the overhead cost of fixed capital is a considerable part of the total cost of production, it is always open to a company to go through a process of "financial reorganization" and reduce its costs. So long as it is able to sell its products for more than the cost of labour, raw materials and essential overhead charges, there is no reason why a bankrupt concern should go out of business. But with each successive "reorganization", the throat-cutting becomes more severe, and even the most efficient concerns, which at the start of the process were operating at a profit, are driven to the wall. A time comes when very few dividends are being paid, when the industry is totally unable to raise further capital, except the reluctant contributions of those who still hope to retrieve what they have invested in the past. But still the industry goes on producing and over-producing. Who would venture to say that the Lancashire cotton industry, for example, is any nearer equilibrium to-day than it was in 1922—that a further bout of bankruptcy would make it more so? Through all these years the consumer of cotton goods has been getting his goods very cheaply, but only at the cost of the slow consumption of the industry's capital. It cannot possibly be to the interest of the community as a whole to allow one of its largest industries to beggar itself. For conditions of over-capacity such as have prevailed in Lancashire and elsewhere in this country since the War, free competitive enterprise clearly has no remedy that is not intolerably slow and destructive in its operation.

At the other extreme, the circumstances of to-day are equally different from those which were postulated

by nineteenth-century political economy. There is a growing tendency for industries—including some of the most vitally important—to come under the domination of one gigantic combine or of one or two large companies which in practice work closely together. In an industry of this nature all the surface appearances are the precise opposite of those in a distressed industry like cotton. Labour standards are high, the work of the industry proceeds smoothly; prices may be reduced, but no throats are ever cut in the process; technical improvements are regularly adopted, and the fixed capital of the industry is fully maintained. But this is not free competition. Technical efficiency, high wages, steady profits—all these are not by themselves sufficient justification for monopoly. In a competitive system the community is sure that it is getting its supplies of goods at the lowest possible price. Indeed, as we have seen, the price is sometimes too low. But to guard against the dangers of cut-throat competition by encouraging such monopolies as restrict production and hold up prices above the possible minimum cost would indeed be to jump out of the frying-pan into the fire. In the United States, public opinion and the law have attempted to prohibit all monopolies or near-monopolies on principle. It would be foolish to adopt such an extreme attitude in this country. But we must be sure that our industrial trusts are not using their monopoly position to restrict supplies below what they might be, and to keep prices above the level that would assure a fair competitive profit. It may be that these monopolies will resist the temptations of their powers and serve the public with the utmost economy. But we must be sure. In existing circumstances we certainly cannot be.

There are many other causes for dissatisfaction with the régime of competitive private enterprise. In particular, there is a growing opinion that many industries are so intimately "affected with the public interest" that they cannot properly be left to the uncontrolled direction of those engaged in them. In some cases it is the influence which the industries in question exert upon the welfare of the whole community which makes them the objects of public solicitude. The banking system and the armaments industry are two outstanding examples. In other cases, it is the suspicion that a service of paramount national importance is not being performed with the requisite efficiency which lies behind the desire to institute public control. For example, there is a strong *prima facie* case for the belief that the distribution of certain essential food-stuffs, notably milk, is conducted with a great deal of avoidable waste.

Still another reason for interfering with individual competitive rights is the desire to maintain labour standards. The principle of Trade Boards for unorganized industries is, of course, well known. But there are many larger industries where the majority both of employers and of workers desire protection from the minority who are prepared to offer, or to accept, wages below the prevailing standards. In the cotton textile industry the precedent has already been set of securing legal sanction for wage rates agreed upon by a majority of employers and employed.

In several directions there is thus an admitted need for interference by the State with the free play of industrial competition. The function of statesmanship is not fulfilled by a passive policy of succouring the victims of competition's defects. It is not enough merely

to assist those who are left without livelihood by the failure of industry rapidly to adjust itself to changed conditions. The State must take an active hand and pursue a positive policy. We must construct a new framework for the orderly planning of economic life in industries where free competition has produced either persistent disorder or a dangerous concentration of economic power.

Before we begin to outline the methods by which, in our opinion, this task can best be approached, two warnings will not be out of place. The first is that we must not exaggerate either the need for, or the possibilities of, the planning of industry. We have already pointed out that in a considerable number of industries free competition is still working with reasonable efficiency. So long as an industry automatically keeps itself in that balanced equilibrium between the interests of producer and consumer, employer and employed, which is the theoretical ideal of free competition, it would be foolish to intervene. We must be careful, in emphasizing the defects of free competition in some industries, not to imply that those defects are universal.

And secondly, we must not lose sight of the fact that the objective of our planning must be, in general, the same as that of theoretical free competition—that is, it must attempt to distribute the available resources of the community between the different industries in such a way as to produce the greatest volume of real wealth. In other words, planning must be directed towards the interests of the community as a whole, rather than to the special interests of sectional groups. To “plan” an industry in such a way as merely to raise the remuneration of those engaged in the industry by mulcting the consumer would be to diminish rather

than to increase the wealth of the community as a whole. It has always been the theoretical justification of free competition that, with all its defects, it approached closer than any other system to the ideal distribution of resources which would maximize the production of wealth. It is especially where such competition is conspicuously failing to maximize the production of real wealth that planning is needed, and if planning has the effect of diminishing the output of wealth it will be an economic waste.

### METHODS OF ORGANIZATION

No uniform treatment is applicable to the circumstances of every industry. It would be impossible to apply the same pattern of organization to the cotton and chemical industries, the one depressed, inchoate, bewildered, the other organized, efficient, self-confident. We cannot solve the industrial problem by any embracing formula. No Government could draw up a model of organization, or even half a dozen alternative models, and expect every industry to conform. Each industry has its own peculiarities—each must have its individual prescription. But if each industry in turn is to come before the Government, Parliament, and public opinion, for separate consideration and separate treatment, the process will be never-ending. Here is a real dilemma: the facts of industry prohibit regimentation; the limited possibilities of political action put a long series of individual enactments out of the question.

**AN ENABLING ACT.**—To some extent the dilemma might be resolved by passing an Enabling Act conferring on industries the right, or imposing upon them

the obligation, to organize themselves corporately, with certain specified powers. The industries themselves would then elaborate the details of their own organization; the part of the State would be to examine and approve, and it could be accomplished by administrative order instead of by the more cumbrous procedure of an Act of Parliament.

But there are dangers in such a procedure. Industrialists, when invited to draw up a scheme for their own organization, would be less than human if they did not do so with an eye to their own interests rather than to the wider interests of the community. If an industry is given the power to turn itself into a monopoly, it would be possible for it to use the power to restrict production and raise prices. Indeed, this would be the most effective way of advancing its own interests—at all events in the short run. It would be wrong to exclude altogether the possibility of restricting the capacity to produce, for there are some industries where such a restriction would in the long run be in the interest of the community as well as of the industry itself. But these industries are in a small minority, and in the great majority of cases restrictive monopoly would certainly be harmful to the interests of the community at large.

We are consequently of the opinion that it would not be in the public interest to confer on the generality of industries the power to constitute themselves monopolies. Exactly what constitutes a monopoly is not easy to define; but for the purposes of this discussion we can single out three monopoly powers. The first is the power to impose on the constituent firms of an industry a limitation or restriction of the volume of their production or sales. The second is to prescribe

minimum prices below which sales may not be made. The third is the power to limit or prohibit new entrants to the industry. Any industry which possesses any of these powers over its constituent firms can be regarded as having the characteristics of a monopoly; if the powers rest upon legal sanction it might be called a legalized monopoly. It has been suggested that the dangers of monopoly could be avoided by conferring these powers on industries, but making their exercise subject to safeguards, such as the approval of the Board of Trade, the representation of consumers on the governing body of the industry, full consultation with organized labour, the acceptance by the industry of an outside chairman, and so forth. These safeguards would be of considerable utility. But they do not get over the major difficulty. They might ensure that any restriction of production or enhancement of price was moderate. But there is no economic justification for even a moderate restriction of production *if it is to be applied to industry in general*. We cannot consume more by producing either a great deal less or a little bit less. We can only consume more by producing more. In order to defend the community against any danger of a widespread policy of restriction, we come back to the proposition that restrictive monopoly, whether moderate or excessive, can only be justified *as an exception*. We propose, therefore, that powers such as the three we have distinguished should not be granted to industries except after the most careful enquiry, and on the understanding that the industry accepts a substantial degree of public supervision, regulation, and control as a condition of the powers being granted.

Many of the powers that might be conferred on in-

dustries by an Enabling Act do not raise the issue of monopoly and are comparatively uncontroversial. It is desirable, for instance, that the provision already obtaining with regard to wages in the cotton manufacturing industry should be extended to other industries, and that any industry in which a substantial majority of both employers and employees wish statutory force to be given to their agreements on wages and working conditions should be allowed to obtain this power without having to promote a special Act of Parliament for the purpose. There are several industries where a long tradition of harmonious collective bargaining is threatened by the selfish action of a small minority. Standardization—a fruitful source of true economy—would be immensely facilitated if the central organizations of an industry were enabled to formulate and enforce the standard specifications of the industry. There are several trades to-day—domestic sanitary ware is an example—where virtually every manufacturer agrees on the necessity of standardization but none dares to limit the range of his products for fear of being unable to compete in all markets.

In some trades there is grave need of an established code of what constitutes fair and what unfair competition, for simplifying methods of quotation, etc. In others there is need of a Research Bureau to be financed by the whole industry; without the power to make a compulsory levy for the purpose, every firm will hang back in the hope of profiting by the Bureau's researches without contributing to its cost. There is an almost endless list of ways in which an Enabling Act of this character would be of service to industry, without in any way injuring the interests of the community at large.

We recommend, therefore, that such an Enabling Act should be passed. The Act should set up an Industrial Advisory Committee, on the lines of the Import Duties Advisory Committee, to examine and pass schemes submitted by industries. Schemes, when approved by the Committee and by the President of the Board of Trade and laid before Parliament and the public, should come into force by Departmental Order.

But where an industry wished to avail itself of one of the monopoly powers, a somewhat different procedure should be adopted. The enquiry made by the Industrial Advisory Committee should be more searching in character and specifically directed to the point whether the exercise of these powers would be in the interests of the community as well as of the applicant industry. The scheme, before approval, would have to make provision for some measure of public supervision of the industry. And approval would need to be given by a more deliberate Parliamentary procedure,—not, indeed, the lengthy and cumbrous procedure which is now customary for an ordinary Act of Parliament, but a process providing for full discussion and consideration, with a view to ensuring that such powers should only be granted if, in the circumstances of the particular case, the grant is in the public interest, and if their exercise is adequately supervised and controlled. In some cases, as we indicate below, industries requiring such powers may be most suitably dealt with by special legislation.

The Act would of course specify, *inter alia*, what percentage majority of the industry was required for a scheme to be approved, and how that majority was to be determined. For schemes where the inter-

ests of the workers were affected, provision should be made for an allocation of voting power to the Trades Unions concerned. On the employers' side the power to vote would have to be allocated in such a way as to take into account the number of workers employed, the amount of capital invested, the average output, and the average turnover of each producing unit.

**OTHER FORMS OF REORGANIZATION.**—The Enabling Act would of course be of general application. But nothing in it would prejudice the power of Parliament to take action on different lines with regard to those industries and services which in the opinion of the Government required special treatment.

We envisage four broad types of organization to meet the circumstances of those industries which for one reason or another need a degree of organization or of public control which they would not achieve for themselves under the Enabling Act.

In the first category falls that minority of industries where real and permanent over-capacity exists and where consequently some reduction of the capital equipment of the industry can be justified. These are the well-known depressed industries—coal, cotton, iron and steel, shipbuilding, are the chief of them.

We next come to those industries which do not require reorganization as do the depressed industries, and which the State is not prepared to take over, but over which it wishes to exercise a close control. They are of two varieties: (a) industries which, being dominated by one or two large firms, are already virtual monopolies; and (b) industries which are peculiarly "affected with the public interest" (e.g. banking and insurance). In the former class (which we may distinguish by the name of *Public Concerns*) the main

prescription for public control is the utmost publicity for accounts and operations. The latter class, that of *Public Utilities*, already includes the railways and the gas and electricity supply companies. To fall into this class, an industry must be one which the State is not yet ready or able to socialize or nationalize in the fullest sense but over which it wishes to exercise a close control. Such an industry may be a monopoly, or in many hands. But without disturbing ownership, the State may impose conditions as to publicity of accounts, limitation of profits, fixation of charges by a public tribunal, etc. In this field we foresee the possibility of a very great advance being made in the immediate future. To take only one example, we recommend in Chapter V that the joint-stock banking system of the country should be given Public Utility status, thus meeting the need for control and publicity without incurring the disadvantages of outright nationalization.

The last group of industries is composed of those suitable for complete socialization. We suggest that it should include such industries as transport, electricity supply, some forms of insurance, the manufacture of armaments, etc.

Each of these four broad varieties of industrial organization may be very briefly commented upon.

### (1) DEPRESSED INDUSTRIES

First come the special arrangements for the great depressed industries. It is far beyond the scope of this chapter to attempt to present a detailed plan for dealing with the depressed industries. But we believe that two propositions can be made with

certainty about any plan which is to have a prospect of success. The first is that it will involve, at the least, a reduction in the number of operating units in these industries, and at the most a very large measure of centralized control. The second is that it will involve a reduction of productive capacity and a concentration of production upon the most efficient plants. These aims could both be achieved by nationalization. But we believe that a general nationalization of the depressed industries would be fair neither to the State nor to their present proprietors. To the State it would involve the assumption of responsibility for a number of ailing industries. And to the present shareholders it would mean expropriation, and the payment of compensation, at the bottom of a depression, when sound measures of reorganization might considerably enhance the value of their property. The correct line of approach seems to us to lie in centralizing the effective control of these industries while leaving their present ownership substantially unchanged. The fullest form of applying this general idea would be to set up in each industry one or more large combines, free of intolerable financial burdens and subject to some public control, in which the existing firms would become shareholders. If this thorough-going form of integration cannot be secured, another method would be to leave the present operating units of the industry as they are, but subject them to far-reaching control by a central organization—the organization having powers which would enable it to control not only the volume of output of the industry but also the units from which it was to come. In either case what is wanted is the establishment by the State of a rational organization for each industry, bearing in mind the individual peculiarities

of each industry, but ignoring the sectional jealousies which have hitherto stood in the way of anything being done.

Something of this sort was attempted for the coal industry in 1930, but the precise method of organization was in many ways defective; its success has not been outstanding, and future projects should profit by its errors. The first difficulty in the way of such a plan is to secure the scheme for reorganization. The experience of the depressed industries in the last decade is not such as to encourage great hopes of a practicable scheme emerging solely from within the industry, or from those who represent the industry in a Trade Association. In the cotton industry, for example, scheme after scheme has been produced, but even though the later ones, profiting by experience, have tended to be more and more innocuous (which in this connection is almost synonymous with useless), very few of them have been adopted. We believe that use might be made in these industries of a procedure adopted in the reorganization of agriculture. In accordance with the Agricultural Marketing Act the Minister has appointed several Reorganization Commissions for the different branches of the industry. These Commissions have been drawn largely from outside the industry in question though including experts from within; they have examined the position and drawn up a draft scheme. The scheme has then been submitted to the industry with the implied approval of the Government. It is possible that Reorganization Commissions of this nature would be of use in the case of the depressed industries. Their reports would at least give these industries one more chance of acquiescing in their own reconstruction before the community

loses its patience and imposes a scheme from without.

The condition of the depressed industries makes monopoly powers inevitable. But it does not make such powers any less dangerous, and it is essential that they should only be granted subject to considerable safeguards. The Board or Boards which are appointed to administer any scheme, whether for a depressed industry or not, which involves the grant of monopoly powers, should regard themselves as trustees not merely for the shareholders of the industry, not even exclusively for the whole body of people engaged in the industry, but for the community at large. There should accordingly be a substantial "neutral" element on each Board, which does not represent any section of the industry but is appointed to represent the public interest. In some cases—as in the Herring Industry Act—it may be necessary for the whole Board to be appointed by the Government rather than elected by the industry. Apart from these watchdogs of the general interest, there should be provisions for the fullest possible publicity for the industry's operations, for a system of cost-accounting operated by accountants appointed by the State, and for a limitation of profits to a reasonable figure. These provisions are of course intended to secure that the industry shall not make use of the State's assistance in order to restrict production, subsidize inefficient producers, or raise prices to the detriment of the public interest.

## (2) "PUBLIC CONCERN'S"

The second variety of organization does not involve the grant by the State of legal monopoly powers, but

the scrutiny by the State of monopoly powers already acquired *de facto* if not *de jure*. Recent decades have seen the growth of gigantic combines dominating whole industries. These huge companies are subject to no regulation more strict than that applied to the smallest public company; they are too large for effective control to be exercisable by the large body of their proprietors; and they are frequently not subject to the check and stimulus provided by free competition. All may be well within these commercial juggernauts; but the public should be able to base its confidence and approval upon knowledge of the facts rather than upon blind faith. Other industries, which may or may not be *de facto* monopolies, need some measure of public control because of their bearing on the rights of large sections of the community. Railway transport, electricity, and gas (to name only three) were long ago recognized by the State to be in this category; but the list needs extending. For these two varieties of industry two similar but not identical forms of organization need to be developed. To the first we can give the name of Public Concern, to the second that of Public Utility.

An amendment is needed to the Companies Act, setting up a new category of Public Concern. Any joint-stock company whose assets (including those of its subsidiaries and sub-subsidiaries) exceed a certain figure to be laid down in the Amending Act should automatically become a Public Concern. In addition the Board of Trade would have power to list as a Public Concern any joint-stock company which in the Board's opinion either directly or indirectly controlled more than half of the total activities of any industry, either in the country as a whole or, in some cases, in particular localities. The main

obligation to be laid on a Public Concern should be that of the fullest publicity for all its operations. Its accounts should be published in a prescribed and detailed form; they should include the operations of all subsidiaries and sub-subsidiaries; they should be audited by accountants appointed and remunerated not by the Public Concern itself but by an official or professional body, and these accountants should be charged with the duty not merely of ascertaining the correctness of the published accounts but of assessing the efficiency of the concern by means of cost-accounting. It would probably be found desirable for a Supervisory Council to be attached to each Public Concern, representing the private shareholders, the employees (both salaried and wage-earning), and the consuming public. We have no wish to specify the precise details of the Public Concern form of organization, but we have probably said enough to indicate with reasonable clearness the type of provision we have in mind. It is no part of our intention to imply that the State should discourage the growth of large enterprises. On the contrary, we regard them as inevitable, and in most cases welcome, phenomena of a highly organized economy. But we wish to recognize the fact that the Companies Acts, as they stand, apply equally to the very smallest and to the very largest public joint-stock companies. In our opinion some differentiation of treatment, without any implied condemnation of the larger companies, is a necessary step in the gradual evolution of company law.

### (3) PUBLIC UTILITIES

The Public Utility organization would differ from that for Public Concerns in important particulars. The

Board of Trade should be given power in consultation with the National Planning Authority to schedule any industry as a Public Utility if its public importance warranted the step. Railway, gas, and electricity companies are already in this category; we indicate in Chapter V that the joint-stock banks should be placed within it, and the principle might well be extended to some, if not all, forms of insurance and to other industries. The distinguishing characteristics of the Public Utility form of organization should be, first, the publicity enjoined on Public Concerns; second, the limitation of profit; and third, the approval of charges by some public body. It will be noticed that these suggestions do not go far beyond the limitations already imposed in principle upon railway and electricity concerns. The proposal is rather to extend the scope than to increase the obligations of Public Utility status.

#### (4) SOCIALIZED INDUSTRIES

The fourth great category is that of fully socialized industries. The extent to which the economic activity of the country is on a non-profit basis or on one of closely limited profits is already very great. The vast "public concerns" under *ad hoc* authorities, or in effect under public control through special or mixed systems, are in some respects a model for further extension and in some respects urgently need review and reconsideration.

The general principles limiting and guiding future extension should be:

(a) The steps taken to secure public control should be proportionate to the public interest involved. Thus the business of central banking obviously presents a

much more urgent case for public control than the business of hat-making.

(b) The form of organization should be appropriate to the particular industry in question. In general, we believe that "public corporations" of varying constitution, but independent of current ministerial direction, save on specified and limited questions, will be found preferable to direct nationalization under political control. We already have a number of precedents in the organization of "public corporations": the British Broadcasting Corporation and the London Passenger Transport Board are outstanding examples. In each case the governing body is appointed by a public authority (either the Government, or in the case of the L.P.T.B., a statutory appointing committee), but each organization is independent in its daily working.

(c) The extent to which public ownership or management is introduced is necessarily limited by the ability of the machine of Government—Government in the largest sense, including Parliament—to undertake additional responsibilities without undue risk of inefficiency or corruption. This may prove to be the most important limiting factor in any immediate programme; for (as is illustrated below) there is no lack of spheres of economic activity which are suitable for socialization on other grounds, provided that they can be organized efficiently.

(d) It is extremely important that the State should not be loaded with distressed and declining industries; nor on the other hand, while there is a mixed system and the Treasury requires revenue for "social services", should the State take over potentially very rapidly developing industries to whose progress risk and experiment are vital.

(e) There must be a very careful "public services" budget framed as a whole; and very careful and illuminating cost-accounting systems for each concern: each concern must either pay its way fully (with margin to replace loss of revenue from former private enterprise), or must render a public service incontestably worth the net cost involved.

Disagreement as to how far it is economically desirable to socialize in the near future should not be serious, since the real limiting factor is (c). There are probably more activities in which there would be a net economic advantage in socialization than can in practice be absorbed in any near future by the public machine. What is therefore needed as a basis of agreement is a list of *priorities*, on the above criteria, with the intention of proceeding as far and as fast as is administratively practicable.

The construction of this list of priorities would be one of the first tasks of the Planning Authority. We cannot anticipate its decisions, but it may be useful to indicate a few industries which in our opinion should come high on the list.

*Transport* is an obvious example. So far as the railways are concerned, socialization would present few difficulties and few advantages. But the time is fast approaching when the whole transport system needs co-ordinating. The railways have a large amount of fixed capital, privately owned; they are common carriers and must accept whatever goods are offered to them for carriage; and they are subject to a complicated system of rates which was originally based on the assumption of a monopoly which they no longer possess. Road transport has the larger part of its fixed capital provided by the State, though not, it is true, free of

charge; it can choose the goods it carries and charge for them as it pleases. As a result of these differing circumstances, the nation's transport facilities are not being used to the best advantage. The remedy, in our opinion, lies in the institution of a community of financial interest between road and rail as regards the main "public carrier" services, so that it is to the advantage of neither party to keep traffic away from the other; and this can hardly be achieved without some degree of national control, if not ownership. It is not suggested that a complete monopoly of transport should be instituted, and many exceptions would have to be allowed. In the sphere of passenger transport, it would not, for example, be necessary to bring taxicabs within the scheme, and the services provided by the public transport combine would always be subject to the healthy competition of the private citizen driving his own car. In the sphere of goods transport, it would remain open to any firm to transport its goods in its own vehicles, and it would probably also be advisable to make an exception for vehicles hired out for comparatively long periods for the conveyance of one firm's goods, and perhaps for local "public carrier" services with a limited range of activities. We need not particularize the exceptions, for it is the main principle that is important. Any form of transport involves such a large amount of fixed capital, whether privately or socially provided, that competition can very easily become uneconomic. It is in the nation's interest to see that the method by which a particular batch of goods is transported is determined not by temporary competitive advantages but by consideration of which agency is best fitted for the particular task in hand. And we believe that by combining the two

principles—single control of the great Public Carrier Services, and absolute freedom of the individual firm to arrange the transport of its own commodities—it should be possible to secure the advantages both of large-scale organization and of effective competition.

*Electricity* is another case for early socialization. One large part of the industry, the distribution of electrical energy from the generator to the Authorized Undertaker, is already socialized, and the intervention of the State has greatly increased the technical efficiency of the industry. But the distributing side is still in parts of the country in a state of confusion comparable to that of the generating side before the advent of the "grid". There is a perplexing variety not only of rates but of methods of charging, and many of the distributing companies are far too small to secure a proper diversification of load. It is only fair to add that many of the larger concerns, particularly the large municipal undertakings, are models both of commercial and of technical efficiency. We propose that the same broad principle which was applied to the generators in 1927 should now be applied to the distributors of electricity —namely, that the standards of efficiency of the most efficient should be imposed on the least efficient, and that the industry should be reorganized in units large enough to secure the maximum economy. We think the time has come to make the generation of electricity a publicly owned business, and to end the anomaly of the present arrangement whereby the generators are private companies but have to sell all their production to the publicly owned "grid". On the distributive side a large part of the industry is already municipally owned, and the principle of public ownership (as distinct from public control) might be extended gradually, start-

ing with the areas now served by companies which are too small to be efficient. A co-ordination of the industry on these lines, and the pursuit of far-sighted commercial policies designed to increase the consumption of electricity, could enormously increase the extent of electrification and cheapen the cost of current. There is even less need than usual in this industry to fear any lack of enterprise under public control, for the great municipal electricity undertakings have long ago established themselves among the technically most efficient and commercially most enterprising of the country.

In another field, there is a strong case for the nationalization of some forms of *insurance*, especially that known as "industrial assurance", which closely touches the poor and whose present administration is in many respects open to serious criticism. The State already runs health insurance, which is the most difficult form, and the extension of its operations, coupled with co-ordination in the administration of the different forms of insurance, would be highly desirable. Since the State has made motor insurance compulsory, it would seem reasonable to suggest that this service should be nationalized, which would incidentally do away with the unsatisfactory position of large liabilities in respect of compulsory insurance being undertaken by companies which, though "Authorized Insurers", prove to be financially unsound.

The interests of the poorer consumers might also be greatly advanced by socialization of several branches of the *distributive system*. Milk and coal would seem to be clearly indicated, since the production of these commodities is already under centralized control. In the case of milk there is the added circumstance of the

existence in many parts of the country of what almost amount to local distributive monopolies. The nationalization of *mining royalties* has become almost an agreed principle, while there is a very large and growing body of support for the nationalization, on political rather than economic grounds, of the *manufacture of armaments*. This list is by no means exhaustive, but when taken with the special treatment recommended for the depressed industries, it would provide quite enough material for the labours of one or even two parliaments.

These varied recommendations would provide a legal framework for industry sufficiently flexible to suit the different circumstances of each industry. We believe that their adoption would go a long way towards removing the abuses both of excessive competition and of private monopoly. In conclusion, we can only reiterate what was stressed at the outset, that the only object of any organization of industry is to maximize the production of real wealth. If the system we have suggested succeeds in adjusting the equipment of industry to the demands it has to meet, and in facilitating the re-employment of some of the resources both of capital and of man power which are now wasting in idleness, it will have served its purpose. But if it merely adds to the existing rigidities and increases the existing inflexibilities, it will have done harm. The test of any industrial system must be its ability to increase the welfare and the income of the whole community.

## CHAPTER V

### BANKING AND FINANCE

#### THE SCOPE OF MONETARY POLICY

THE importance of monetary policy, though great, can easily be exaggerated.

No one would deny that currency policy, which is the international aspect of money, and credit policy, its domestic aspect, are essential elements in any complete formulation of economic action. Currency policy has, as experience has shown, a profound influence upon every sphere of economic activity and every effort of economic policy. When the currency is on a fixed parity with gold, the effort to maintain it may involve first a long period of deflation and unemployment, as between 1926 and 1931, and then a financial crisis, as in 1931, disrupting social reform and general economic policy, with a political crisis and change of government as a consequence. When the currency is off gold the problem is different, but no less important; for then the basic question of the exchange value to be maintained in relation to other countries is decided by those who control the national currency. Credit policy is no less important than currency policy. The Bank of England and the "Big Five" Joint-Stock Banks between them largely determine whether at any time expansion should be encouraged by easy and cheap

money or discouraged by the opposite; and this may well be a decisive factor both in the general economic position and in the specific schemes which a government may be promoting. Further, the banks and the other institutions of the financial system with which they are closely associated, the Stock Exchange and the issuing houses, etc., and the opinions formed and advice given by those who direct them, largely determine the direction in which the savings of the country flow, whether for investment abroad or at home, and into what form of enterprise.

But money is not all-powerful. Many years ago Jevons wrote: "There are men who spend their time and fortunes in endeavouring to convince a dull world that poverty can be abolished by the issue of printed bits of paper. I know one gentleman who holds that exchequer bills are the panacea for the evils of humanity. Other philanthropists wish to make us all rich by coining the national debt, or coining the lands of the country, or coining everything." The forms of these beliefs have grown more subtle, and more plausible in the process, since Jevons' day. But the root-belief is still the same: that by a few simple book-keeping transactions a flood of wealth hitherto pent up by an imperfect monetary system can be released to sweep poverty from the face of the earth.

We do not share these beliefs. The monetary system can be improved, and it is the task of this chapter to show in what particulars we believe it can be profitably amended. At the present moment there is clear evidence that it is not working as it should; the abundance of so-called "cheap money" in the City of London, together with an oppressive scarcity of money in the pockets of the unemployed, are by themselves ample

proof of the existence of some impediment in the normal flow of money. This impediment must be removed, and we believe that its removal will contribute powerfully to the restoration of prosperity. But we see all around us too many disorders which money did not cause, and which money cannot remove, to believe that monetary reform is by itself capable of bringing a happy issue out of all our economic afflictions. The growth of cotton industries abroad while Lancashire rots in idleness; the competitive and offsetting subsidies of rival merchant marines; the movement of population from North to South of England, while international migration has come to a stop; the numbing suspicion of national hatreds; the paralysing fear of war—all these and many besides are the non-monetary causes and the non-monetary manifestations of the world-wide depression.

The rôle of money is to serve as lubrication to the economic mechanism. The essential condition of efficient performance of its service is that it shall flow freely and reach every part of the mechanism. An efficient monetary system is thus an essential pre-requisite of a properly functioning economy, and any stoppage of the flow of lubricant will immediately impede the movement of the machine. But even a perfect lubricating system will not of itself start the machine when it has stopped, or ensure its even running. The smooth running of the economic machine depends upon an infinite number of interdependent economic processes being kept in adjustment. Many of the maladjustments were not caused by money and cannot be cured by money; and unemployment is a reflection of the net result of *all* the existing maladjustments. If a piston does not accurately fit its cylinder the machine will not

function properly, nor will there be a normal flow of lubricant. But it would be futile to blame the defect on the lubricant. Similarly, the impoverishment of the export trades of a country may prevent the normal flow of money within that country. But the cause of the trouble is to a large extent non-monetary, and money cannot be expected to put it right. Monetary policy, then, takes its place as one of the elements of a complete economic policy—an essential element, but not the only essential element. We regard the proposals in this chapter as being urgent and vital, but we do not wish them to take any precedence over those contained in other chapters of the book.

### THE BANK OF ENGLAND

The British banking system is based on, and largely controlled by, the Bank of England. That institution was the prototype of the Central Banks which now exist in nearly every country, and it is one of the most powerful monetary institutions of the world. This is not the place to enumerate the functions of Central Banking. But, broadly speaking, the Bank of England determines the volume of credit available both to the London Money Market and also, through the commercial or joint-stock banks, to the industry and commerce of the country, and it also largely determines at what rates of interest that credit shall be offered. The chief limitation on its powers is that it is unable to determine the qualitative distribution of credit, that is, it cannot decide to which particular uses the available total of credit shall be devoted. But its powers within their limits are remarkably effective.

In spite of this unique position of influence, the Bank of England is still a private chartered company. Each shareholder is allowed only one vote at a meeting of proprietors, however large the total of stock he may own, and the Court of Directors has become, for all practical purposes, a self-perpetuating oligarchy. It is common ground that the policy of the Bank is no longer directed towards earning the maximum possible dividend for its proprietors. On the contrary, the Bank maintains the closest possible relations with the Treasury and regards its privileges as a public trust; its policies are undoubtedly formulated with the sincerest desire to advance the general interest. If it has made mistakes, they have been genuine errors of judgment and not the calculated acts of a vested interest.

But the private constitution and established practice of the Bank have three conspicuous defects. It is only natural that an institution working so much within the environment of the City, and drawing so much of its directing personnel from private banking houses, should tend to have, all unconsciously and however excellent its intentions, the point of view of the City, to the exclusion of, and often in contradiction to, the opinions of the country at large. In the second place, the Bank is entirely inarticulate. It never explains or defends its policies, even after the event, and it never reports upon the conduct of its stewardship. This has the result that the Bank far too often gives the impression of an attitude of indifference towards public opinion. And in the third place, it is answerable to nobody for its policies, and there is no means by which those who may have forfeited the confidence of the public can be removed, even after the passage of years, from office. In these circumstances it is all too easy to

represent the Bank's policies as autocratic, selfish, and anti-social.

In a democratic country these are anachronisms, and we believe that the time has come to make the bank a public institution, by subjecting it to some degree of public control. That control should be directed towards three main objects. First, the consent of the Government should be required for the appointment of the Governor and Deputy-Governor of the Bank; the most practicable scheme would probably be for the Court of Directors to submit a list of names from which the Government might choose. Secondly, the Governor of the Bank should be provided with an Advisory Council representative of, and perhaps even nominated by, industry, commerce, labour, commercial banking, and economic science. This Advisory Council would enlarge the somewhat restricted experience of the present Court of Directors, certainly of that executive committee known as the Committee of Treasury, it should sit regularly and should be empowered to call for information on the policy and operations of the Bank. Thirdly, the Bank should be enjoined to take the public into its confidence to a far greater extent than it does at present. The American Federal Reserve Board publishes a monthly review, an annual report, frequent official statements, and statistical data of unparalleled extent and excellence. The Bank of England publishes only a Statistical Summary, which, though excellent of its kind, is almost entirely a digest of information obtainable elsewhere and devoid of explanatory comment. So far as we know, no harm has come to the Federal Reserve Board through the wealth of its publicity, and the Bank of England might well be recommended to proceed at least as far.

There are several ways in which the change in status could be technically effected. For example, the course could be taken of amending the Bank Act and imposing the new duties on the Bank without affecting the proprietors' ownership. The Bank would then, while still having some share capital in private ownership, be directed by publicly nominated officials—as is, for example, the London Passenger Transport Board. The Bank could alternatively be authorized to issue to the Treasury new capital in the form of shares with plural voting rights. Private individuals and the State would then be joint owners, the latter having the control. In either of these two cases, it would probably be advisable to set a maximum limit to the dividend that might be paid. Or lastly, the existing proprietors could be bought out by the simple device of substituting securities with a legally fixed income and no voting rights for the present stock with its conventionally fixed dividend and limited voting rights. In any case, whatever be the exact legal form, the substance of real public control must be secured.

It is important, however, to make it clear that these proposals do not envisage any greater interference by the Government in the *day-to-day* policy of the Bank. The Government should lay down the long-term principles of currency and credit policy; it should, for instance, decide whether or not the gold standard is to be restored, or whether a stable price-level is to be the object of policy—but the Bank should be free to carry out this policy without day-to-day interference. The supreme task of a Central Bank in a modern economy must be to moderate the swing of the Trade Cycle. Since the fluctuations of public psychology are among the most potent causes of the Trade Cycle, it necessarily

follows that anyone who attempts to moderate the excess of boom and slump must for a large part of the time fly in the face of public opinion. A conscientious central banker will frequently be unpopular. In a democratic State the will of the majority must ultimately prevail, but it is essential to save the majority from the consequences of its own temporary moods; the qualification is not necessarily a derogation of true democracy. We therefore propose that the Governor of the Bank of England should hold office for a period of years not less than seven, and that during his tenure of office, subject, of course, to his absolute obligation to accept and execute the long-term policy of currency and credit laid down by the Government, he should be entirely free as regards his day-to-day actions from political pressure, and removable only by agreement between the Court of Directors, the Advisory Council, and the Government, or by an address to the Crown from the House of Commons. In other words, his position while in office should be as independent as that of the Judges.

### THE JOINT-STOCK BANKS

The man in the street never comes into direct contact with the Bank of England save for using its notes, which form the currency of the land. To him the banking system means the commercial, or so-called joint-stock, banks in Great Britain, and of these by far the greater part of the business is done by the "Big Five", whose branches are in every town and whose names are familiar to everyone. We may without distortion think of the Big Five alone when considering the problems of commercial banking.

There are many complaints urged against the Big Five. They are said to indulge in wasteful competition by the unnecessary multiplication and needlessly luxurious character of their branch offices. They are said to be governed by "red tape" to such an extent that the old personal relationships between banker and customer have disappeared and loans are no longer obtainable on personal credit without marketable security, which many small business men are unable to provide. In a period of low interest-rates such as the present there is naturally much complaint against the relatively high rates charged by the banks for overdrafts or advances; the relative maintenance of the banks' own profits is contrasted with the burden of their high charges on struggling businesses. Finally, there is a large section of opinion which takes its stand on broader grounds than these and holds that the banks perform functions and exercise an influence on the economic life of the country far too important to be entrusted to uncontrolled and secretive private institutions. There is in some quarters a fear that if the State extended its sphere of operations further than was approved by orthodox opinion in the City of London, the banks might use their control of credit to starve socialized industries or to ruin Government enterprises. As a remedy for these defects two courses of action have been suggested: first, the nationalization of the joint-stock banks; and second, their subjection to the degree of public control appropriate to a Public Utility, without proceeding to the length of outright nationalization.

Before these complaints can be justified or a choice be made between the alternative remedies of Nationalization or Public Utility status, it is necessary to clarify

our ideas on the function of the joint-stock banks. Their duties to the community are to keep safely the deposits entrusted to them by the public, and to distribute equitably, and as cheaply as may be, the total available volume of short-term credit. These are the two duties; but the former of the two is the more important. In Great Britain the public is inclined to form its opinions on the assumption that the provision of an adequate and cheap volume of credit is the sole task of the banks. But that assumption is only possible because we have been fortunate enough to have a banking system whose liquidity and solvency have not in recent years been doubted. It is impossible to exaggerate the importance of complete public confidence in the banking system. In those countries where that confidence has been lacking, notably the United States, the effect has been to set in train deflationary influences of the utmost potency, to inflict a progressive paralysis on all enterprise and to hinder most, if not all, measures of economic recovery initiated by the Government. In Great Britain we have gained greatly as the result of our "cheap money" policy, and almost alone of the great nations we have for more than two years been recovering in the normal manner from the depths of the crisis. But without confidence in the banks, cheap money, and recovery with it, would have been impossible. It is only fair to recognize that this confidence is at least in part due to the belief that the State would not allow any one of the Big Five to close its doors. But since there has not been even a remote likelihood of this ultimate guarantee being called upon, the banks are entitled to attribute the placidity of public opinion to confidence in their own sound policies as well as in the readiness of the State to prevent a crash.

Any proposals for banking reform must therefore be tested by the supreme criterion of their probable effect on public confidence in the banks. We do not think that nationalization of the joint-stock banks, regarded by itself, would necessarily diminish that confidence. But on the other hand it could hardly increase it. And if nationalization is proposed merely as the preliminary to a revision of the lending policies of the banks, the position is altered. To cheap and abundant credit there can be, in principle, no objection—indeed, we have later some proposals looking to this end. But if credit is to be made cheaper and more abundant by forcing the banks to depart from what they consider to be the principles of sound banking, several very important questions are raised.

Some of these questions may be briefly mentioned here. In the first place, the joint-stock banks are not responsible for the available volume of credit, which is determined by the Bank of England; and it may be remarked in passing that an excessive volume of credit, by stimulating an inflationary expansion, may have results ultimately as harmful as those of an inadequate volume of credit. The joint-stock banks are responsible for the distribution between the conflicting claims of different industries and different kinds of borrowers of the volume of credit determined by the Bank of England. It is nowhere suggested that they perform this duty to perfection. But the problem is whether a different set of officials, appointed after the nationalization of the banks, would perform the duty any better. In some respects they would undoubtedly perform it worse, as a State banking system would, in the nature of things, have to work even more to formalised rules, and pay even less attention to such intangible things as the

personal reputation of the borrower for honesty, than the present Big Five.

Other advocates of the nationalization of the banks are inspired by fundamental misconceptions of the nature of a deposit banking system. These critics observe that projects which, though requiring a long development period, would be profitable in the long run, or which, though promising a small return in actual cash, are of great social value, are held up for lack of finance;—and they blame the banks. All observers will be agreed that our capital resources are now most inefficiently and inequitably distributed—but not that the task of reform should be thrust upon the banks. It is not the business of the banks to lend money for long periods of time, and since it is vitally important to them to preserve the full confidence of their depositors, they must insist upon the financial soundness, in the narrowest sense, of any project which they assist. These two rules are fundamental to any deposit banking system. Although critics in England complain, by inference if not directly, that the banks observe them too strictly, in America, where the experience of departing from them has been devastating, the banks are strongly criticized for not adhering to them with the utmost strictness. Indeed, the latest American proposal is that banks receiving deposits should be entirely prohibited from making advances to industry, lest in so doing they should lend with less than perfect discretion. The guiding rule of British banking has always been that advances should liquidate themselves in a brief period and that they should be based upon adequate financial security. It is within the knowledge of everyone that the rule is sometimes departed from, but it is also within the knowledge of everyone that many of the

most conspicuous departures have also been conspicuous failures. If nationalization of the banks would mean any relaxation of this rule, we believe that it should be most strenuously opposed. We sympathize with those who wish to mobilize more effectively the collective financial resources of the community, but we do not believe that the banks should be made the agency of such a mobilization. In the last section of this chapter we make certain alternative proposals.

On balance, therefore, we do not recommend the nationalization of the joint-stock banks. We believe that the second line of advance, that of subjecting these banks to regulation rather than taking them over *en bloc*, is likely to be the more fruitful.

Nothing of what has been written above detracts in any way from the fact that the joint-stock banks perform a function of the utmost public importance. The greater part of the money of the country is deposited with them, and this alone would be sufficient ground for subjecting them to public control, for regulation of the currency has always been among the prerogatives of the State. We are of the opinion that the joint-stock banks should be accorded a status corresponding to their actual position, which is that of one of the largest and most important of our Public Utilities. They should remain under private ownership, but their profits should be limited, their actions should be subject to control and review, their functions should be defined by legislation, and they should be under the obligation of giving the public the fullest information on their transactions. More than that, a permanent Banking Commission or Authority should be appointed, empowered to inform itself on all their activities, and approve their scale of charges, with full access to their

books and in a position to consult with and advise the banks on the discharge of their duties, especially in regard to the qualitative distribution of credit among the various alternative uses.

We believe that a system of this sort is much more suited to the joint-stock banks in the present phase of development than a policy of forthright nationalization. What the public needs in relation to its banks is knowledge and regulation rather than ownership. We have already explained in Chapter IV that we do not foresee one form of organization for every industry whatever its nature or stage of development. Commercial banking is, in our opinion, pre-eminently a case for what we have described as the Public Utility form of organization.

#### CURRENCY AND CREDIT POLICY

The structure of the banking system having been considered, something remains to be said upon the policies that should be pursued. These policies divide themselves into the two heads of currency policy and credit policy. Currency policy concerns the value of the British currency in relation to other currencies; credit policy concerns the control of the domestic money market and the regulation of the supply of credit.

The problem of currency policy has in the past been presented in the form of a bare alternative between the gold standard and the so-called "managed" currency with fluctuating exchange rates. Within the last decade we have had ample evidence of the defects of either alternative. The gold standard, though it stabilizes the exchange rates and facilitates the international movement of goods and capital, limits the freedom of action

of domestic credit policy and subordinates it to the need for keeping in step with the developments of the outside world, however unstable they may be. When in addition the currency is stabilized at a figure which over-values it, the depressing effect of attempting to stay on the gold standard is, as we know from experience, sufficient to limit very drastically the degree of prosperity attainable. On the other hand, our experience of fluctuating exchanges since the autumn of 1931 shows that, while they assure a certain amount of freedom and independence to domestic policy, they hamper and throttle international trade, which is a matter of vital importance not only to our national economy in general but to the solution of the unemployment problem in particular.

The solution of this dilemma—so far as a solution is possible—is in our opinion to work towards a new international currency system which shall have more stability than the present régime of fluctuating exchanges but more flexibility than the gold standard as we have known it in the past. The most promising suggestion is that currencies should be re-linked to gold, but at parities which could be changed from time to time. There would consequently be day-to-day, perhaps even year-to-year, stability of the exchanges, but with an avenue of escape always open to any currency which found itself in a position of maladjustment. There are many questions to be settled before it can be said with confidence that such a system is workable. In particular, there must be international agreement on the conditions which would justify a change in the gold parity of a currency; for if the power is to be used arbitrarily and aggressively it will merely result in confusion worse confounded. But we believe

that it is along these lines that an international monetary system suited to the economics of modern nations can be found, and we believe accordingly that British currency policy should be directed towards achieving this end.

In present circumstances this involves first an increasing co-ordination of policy with the "sterling area" countries, in which the British Government should take the initiative; after stability of exchange rates with these countries has been maintained without difficulty for some time, the position should be formalized in a provisional stabilization. Next, the same procedure, leading, if successful, to a provisional stabilization, should be followed *vis-à-vis* the American dollar. And later, there should be negotiations on a similar basis with whatever remains of the gold *bloc* proper. A world-wide stabilization of exchange rates will only be possible if and when it has been practicable to arrange for a concerted international monetary policy, approved by the Governments, and executed with adequate safeguards by the Central Banks working in co-operation, which will prevent gold from being allowed to impose serious and dislocating changes in price-levels. Any plans for an international monetary system, however rudimentary, are dependent upon the speed with which international economic collaboration can be reorganized. These proposals are therefore directly connected with those in the chapter on Foreign Trade (Chapter VI).

*Credit Policy.*—Domestic credit policy, within the limits laid down by currency policy, must be distinguished according as it is intended to apply to the particular conditions of the present time or to the differing circumstances of a long period of years. Policy

for the present emergency belongs properly to Chapter IV on National Development and need be sketched here only in the briefest outline. Broadly speaking, its aim should be a moderate increase of prices to compensate for the preceding deflation. This does not mean a return to the previous level of prices, since many adjustments have been made, costs reduced, new loans contracted, etc., on the basis of the lower level of prices now prevailing. But the increase should be sufficient to lighten the further task of bringing costs below prices and thus restarting activity where it is now checked. This being the aim, the methods should be partly to keep money plentiful and cheap, and partly to increase the effective demand for it by public expenditure on national development on the lines proposed in Chapter IV.

In the longer run, the task of the Central Bank in regulating credit policy should, as far as it is compatible with its international currency policy, aim at preserving stability. This somewhat vague requirement can perhaps best be envisaged as meaning the stability of the general price-level, although this must not, of course, be taken as meaning the stability of any particular price, nor does it exclude the desirability of allowing prices to fall gradually as improvements in industrial technique lower the level of costs of production. The condition of stability, or economic balance, is not easy to define, but the practical task of the Central Bank should be to avoid, on the one hand, any increase in the general price-level (a satisfactory level being once attained), or on the other hand any creation of unemployment through a "deflationary" fall in the price-level. If the Central Bank can keep within these two limits it will have fulfilled the requirements of

stability in as high a degree as is practically attainable. In order to carry out this policy the Bank of England must always retain the power to restrict credit when it believes that an inflationary position is developing. But the need for the exercise of this power will be diminished in proportion as the reform of the general economic and industrial structure secures a co-ordinated distribution of the available resources of the community. We may hope, therefore, that the need for credit restriction with its necessarily depressing effect on the general economy, will not so frequently arise. The power to check inflation by monetary policy must remain with the Bank, but, subject to this power, credit should be as cheap and abundant as possible. The joint-stock banks, in turn, must in the interests of their depositors be left free from any kind of political pressure in investing their resources and in exercising their judgment as to the credit-worthiness of a given borrower. But, this condition satisfied, it will be one of the duties of the Banking Commission to see that credit is kept as plentiful and cheap as possible.

#### THE MOBILIZATION OF CAPITAL

The origin of the whole capital wealth of the country lies in savings. The individuals and the corporate bodies which make up the public do not spend on consumption the whole of the income accruing to them. Individuals may purchase investments out of part of their incomes or allow their bank balances to accumulate. Limited companies, instead of passing on all their earnings in dividends to their proprietors, may prefer to keep substantial amounts in reserve or to utilize part of their earnings to replace or extend

their capital equipment. In all these various ways the nation saves a considerable proportion, ranging between a tenth and an eighth, of its income. It is of the utmost importance that the resources set free by this saving or "abstention from consuming" should be used to increase the physical capital equipment of the country. This importance is threefold.

First, if the savings are not utilized but allowed to lie idle, the serious dislocation of the economic mechanism which we know as a depression is bound to ensue.

Secondly, if the attempt is made to accumulate mere money wealth without utilizing it to increase the actual physical capital wealth of the nation, those who have saved can exercise the claims which their accumulations of money give them only at the expense of the rest of the community. In these circumstances, saving and the lending of savings lead only to usury and the enslavement of the debtor.

And thirdly, the increase of capital goods is the surest, and indeed almost the only, way of securing a rising standard of living. The fact that our present standard of living is higher than that of past ages is almost entirely due to the fact that the world into which we were born was more plentifully equipped with capital goods, some of them in private ownership, others freely shared by every citizen.

The process by which saving, which is a mere abstention from consuming, is translated into actual capital equipment, which will be useful to, and increase the disposable resources of, the future, is therefore one which vitally concerns the welfare of every one of us. The difficulty of the problem arises very largely out of the fact that the persons and institutions which do the saving are not the same as the persons and institu-

tions which provide the capital goods. Every society must therefore evolve a mechanism by which the savings of the public can be made available to those who are prepared to provide capital goods. This transference is largely accomplished by means of lending and borrowing, the providers of capital in the physical sense soliciting the loan of savings (which may be regarded as capital in the monetary sense) by offering the savers, in the form of interest or dividends, part of the anticipated yield of the capital in the future. This is what is known as the capital market.

A perfect capital market would be one which provided a smoothly working and inexpensive mechanism for collecting all the available savings of the nation and investing them in ways which would increase the useful capital equipment of the community. This is plainly an ideal, no one can foresee the future sufficiently to know what is or what is not a safe investment. But even within the bounds of what is practically possible, the existing capital market in Great Britain leaves very much to be desired. We believe that most of the criticisms of the present monetary system, in so far as they have substance at all, will be found on examination to refer to the unsatisfactory working of the capital market, although many of them are expressed as criticisms of the gold standard, the Bank of England, or the joint-stock banks. It is consequently very desirable that those who wish to create an efficient monetary system should turn their attention to the capital market—the more so since plans for its reform, in the present state of our knowledge and experience, are necessarily in a rather more rudimentary form than is the case in some of the more familiar divisions of monetary policy.

In one respect the London capital market has for many decades worked smoothly and efficiently—in the provision of capital for loans to countries overseas. Several of the well-known banking houses of the City have devoted themselves to this business; their loans have, on the whole, been sound and judicious and have advanced the interests both of the borrowing country and of Great Britain. Even in the present depression, which has brought with it economic insanities which no banker could have been blamed for failing to foresee, the record of foreign loans publicly issued in London is, on the whole, very much better than the prominence given to one or two cases of default might lead one to suppose. According to Sir Robert Kindersley's estimates, the yield in interest and dividends of all British overseas investments amounted to 4·2 per cent of the nominal capital even in 1933, at the pit of the depression. This record is almost certainly better than that of those public issues of shares in recent years, of which the proceeds have *not* gone abroad. This strange comparison is due to the almost complete absence of an organization for dealing with domestic loans. A foreign loan is carefully considered and skilfully placed by firms who specialize in this kind of business and have a reputation to lose. Home issues have the advantage of no such parentage. They are usually issued either by individual promoters, by *ad hoc* companies, whose existence is frequently fugitive in more than one sense of the word, or by firms which, though perfectly reputable, are engaged in other lines of financial business, undertake issues only as a side line, and consequently do not consider that their reputation is substantially involved. As a whole, the process is expensive, wasteful, and too frequently fraudulent. In

both respects—both in the excellence of the machinery of overseas investment and in the lack of machinery for home investment—London is in the sharpest contrast with New York. The American financial system is in many respects weak as regards both its structure and its tendency to speculative excesses. But as an agency for the supply of capital to *domestic* industry it has an excellent record. In this particular sphere it shows—on balance and with the exception of one or two regrettable years like 1929—the qualities of continuing organization and responsible action which are exemplified in British *foreign* issues. But America's foreign loans have been as ill-judged, precipitate, and badly managed as many of the domestic issues that are floated in London. If New York has much to learn from London of the technique of foreign lending, London has at least as much to learn from New York of the methods of floating issues for domestic industry.

The contrast between the machinery of *foreign* and *domestic* investment in London is largely to be explained by historical facts. Throughout the nineteenth century and, indeed, until the War, British industry was predominantly financed by the large private capitalist. Most firms were entirely owned by a few people, and new capital needs, when they could not be supplied by the owning family, could be raised from among personal acquaintances. Apart from the very largest companies, such as the railway companies, a comparatively small proportion of industrial capital was raised in the public market. The great bulk of the savings of the nation flowed into investment without ever passing through the City of London. Such savings as were not privately invested in industry, or in land and house property, went into gilt-edged securities and

foreign investments, and only in a minor degree into British industry.

These circumstances have entirely changed. On the one side, an increasing proportion of the national savings is accumulated either in small amounts or by institutions such as insurance companies and building societies. And on the other side, British industry has increasingly found since the War that if it cannot raise capital in the public market, it cannot raise it at all. This is a new situation to which the City of London has not yet succeeded in adapting itself.

A reorganization of the capital market should have two main objectives in view, which can be distinguished as Regulation and Encouragement.

*Regulation of the Capital Market.*—On the side of Regulation, there is great need for a body which would perform regularly and intelligently the functions of control which have been sporadically and somewhat narrowly performed by the Treasury in recent years. In performing this task, the Planning Committee of the Cabinet and the Economic General Staff should work through a National Investment Board, which would find a very fruitful field for its work. Its first task would be to estimate as closely as it could the volume of savings which, not being directly invested by its owners in capital goods, is available for financing public issues of securities. Its second task would be to decide what proportion of this total should be made available for foreign lending, and this decision would of course be reached after considering the international position of this country, the volume and direction of its trade, and the commercial policy of the Government. The Board should also be able to form a rough idea, but without drawing up a rigid programme, of the

directions in which capital could usefully be invested. Equipped with these general guiding lines, the Board should endeavour to see that the available savings are sensibly distributed. It should centralize and co-ordinate, and itself supervise, the issue of all loans for the Government, local authorities, and public bodies of all kinds. It should further have the right to exercise a certain supervision over other issues. Semi-fraudulent issues and those which are obviously trading, for the sake of immediate profits to the promoters, on a purely temporary craze (some of the "gramophone" and "automatic photography" issues of 1928 are examples) should be strongly discouraged. Furthermore, the Board would be in a position to discourage issues of a kind which it considered to be already overdone, and conversely to encourage issues in directions where further investment seemed to it to be desirable.

These powers, though useful and important, are powers of Regulation. Their effect might be to reduce the volume while increasing the quality of public issues. But our need at present, and in all probability for some time to come, is for a larger and steadier, as well as a purer, stream of money flowing into industry. Encouragement must accompany Regulation.

*Encouragement in the Capital Market.*—It is comparatively easy to put down on paper the chief requirements of the capital market. But it is much more difficult to translate these ideas into facts, and since comparatively little thought has hitherto been devoted to this question, we suggest that the National Investment Board should be charged, in addition to its functions under the head of Regulation,

with the duty of creating an active and adequate capital market and of watching over its development. Progress must obviously be along two lines. In the first place, the machinery of a capital market is needed. There is need of domestic issuing houses or, in the American phrase, investment banking firms, which would regularly perform for domestic issues the services now rendered to foreign issues—that is to say, they would examine the terms of the issue, approve the purposes for which the money is to be used, and issue the loan with their recommendation (though not with their guarantee). Their reputation would consequently be involved in the general soundness of their issues and they would continue to give financial advice to the companies when formed. In the course of time the public would come to have confidence in the appearance of the name of one of these firms on a prospectus, while the benefits to industry would also be considerable. American investment banking allowed itself in the last few years before the crash to be caught up in the frenzy of speculation, but, looking at it from the angle of its services to American industry, no one can impartially examine its record without coming to the conclusion that the ease of access to the American capital market has been of the greatest assistance to American industry. What we need in this country is a mechanism of equal smoothness but without the speculative excesses of Wall Street.

But the functions of the issuing house, at the birth of a new enterprise, are those of the midwife rather than of the mother; it counsels and assists but does not invest its own substance. For the smaller and more hazardous type of enterprise another variety of institution is needed: the large finance company which will

itself purchase the securities of the business, nurse them for a period of years, and issue them to the public when they have matured. None of these functions can properly be performed by the State. They need high enterprise and the ability to take risks. Moreover, since heavy losses will sometimes be made, the opportunity to make considerable profits must be retained. But it is important to the State that there should be such machinery in existence, and its encouragement can properly find a place in a programme of economic policy.

Machinery will be of little use, however, without the willingness to use it. The British investor, whether in his individual or in his corporate person, has been spoiled by the abundance of Government securities. He must be educated to realise that the only source of future wealth to guarantee the security of his savings is the prosperity of industry—and, in the main, of British industry. Moreover, unless industry can secure a reasonable proportion of its capital in the form of ordinary shares, participating in the risks and the profits of enterprise, its capital structure will become progressively more rigid and top-heavy. That the small investor is more willing and anxious to invest in the equity of British business than might be thought is shown by the success of the so-called "fixed trusts", a form of investment which has several technical disadvantages but provides the only way open to the small investor of spreading a small sum over a large number of industrial ordinary shares. The counterpart of the investor's willingness to invest must be the industrialist's willingness to raise capital. At present British corporate finance has all the outward signs of privately-owned business although it is in fact increas-

ingly owned by a large section of the public. Company accounts are secretive and uninformative. There is not one large British company which gives its proprietors as full and as frequent information on its operations as virtually every large American Corporation voluntarily provides. The shareholder is too often regarded as the patient ox.

A minor reform which would be of value in this connection would be a change in the status of the auditors of company accounts. At present they are elected by the shareholders, which means in practice appointed by the directors; and though the standards of the profession are high, it is frequently difficult under the circumstances for auditors to remember that they serve the shareholders and the investing public rather than the management. Auditors should be employed by, and remunerated by, a professional Institute of their own, and the company should pay its audit fees not to the individual accountant but to the Institute. This small reform would, in our opinion, greatly increase the value of company accounts. British industry must increasingly become a true and open partnership between those who manage it, those who labour in it, and those who provide the capital, instead of being the closed preserve of the race of company directors.

All these and many other matters must be seriously considered in the years immediately ahead. We reiterate here what was said above: that in our opinion this is by far the weakest section of the nation's financial machinery, and that most of the somewhat vague complaints against that machinery can be traced to the defects of the capital market. It is consequently all the more important that energetic attempts at reform

should be made in this field. Real success in this direction will do far more than nationalization of the Bank of England or reform of the joint-stock banks towards creating a really sensitive, efficient, and pliant financial system.

## CHAPTER VI

### FOREIGN TRADE

#### THE NECESSITY OF INTERNATIONAL TRADE

WE have already set out some of the reasons that impel us to attach the greatest importance to a revival of international trade. Great Britain is not suited, by her climate, her size in relation to her population, or her natural resources, to be a self-sufficient country. It will in any foreseeable circumstances be necessary for us to import some of the raw materials and some of the foodstuffs we require, and there will be a corresponding necessity for us to devote some of our resources of men and capital to the export trades in order to pay for our imports. Even if we were in a position to wipe clean the slate of our present economic structure and redistribute as we wished the population, the industries, and the wealth of this island, we should still have to allow for more foreign trade than is absolutely necessary for other countries which have greater natural possibilities of self-containment. Great Britain will always be interested in foreign trade; the only room for difference of opinion concerns *how much* foreign trade we are to have, and on what principles it is to be conducted.

For nearly a hundred years British policy was founded on the assumption that we want the maximum possible volume of foreign trade, and that if every country

specializes in producing those goods or those services in which it most excels, the wealth of every country will be increased. Most foreign countries never adopted this policy, and even the converts to it have abandoned it in recent years. Since 1932 Great Britain herself has abandoned the policy. This decision is still disputed; the battle of Free Trade *versus* Protection is still being fought.

We do not intend to intervene in this controversy. Indeed, for our present purpose it is beside the point. It is not necessary to reach agreement on the general question of Free Trade *versus* Protection before an agreed policy for meeting the immediate emergency of international commerce can be drawn up. We believe there is a practical programme capable of immediate application, upon which both Free Traders and Protectionists can agree, without either of them abandoning their general position. This programme is based upon the fact that, whether or not we believe in having as much international trade as we had in the Free Trade days before the War, we certainly need more international trade than we have at the moment. We have called this a fact; and, indeed, it is so clearly demonstrable as to warrant the name. For a large part, probably more than half, of our present unemployment is due to the decline in exports. This does not, of course, mean that more than half of the unemployed are directly connected with the export trades. But the decline in exports is not responsible for the idleness in coal mines, shipyards, and cotton mills alone. It is also responsible for the unemployment caused by the poverty of the coalminers, the shipwrights and dock-workers, and the cotton operatives. If Durham and Lancashire and South Wales were to recover their trade, there would be more employment not only in the export trades, but

in transport, the food and clothing trades, and the great variety of industries that cater for the needs of the people. It is, of course, true that the decline in the export trades has had compensating advantages to those domestic industries which have been protected, and that there is an offset, in the increasing activity of these industries, to the mass of unemployment in the exporting trades. But it is obvious on the most summary examination of the facts that the volume of unemployment that has resulted from the decline of foreign trade has not been fully compensated by the stimulation of domestic industries. A revival of the export trades, even if it involved a check to the expansion of some of the protected home industries, would undoubtedly result in a net gain both in the volume of employment and in the national income.

Now it may be true—it almost certainly is true—that the export trades will never revive sufficiently to re-employ all those who have been thrown out of work by their decline, and that it will be necessary in the future to devote a smaller proportion of our resources than in the past to making for export. Some people would welcome this, some deplore it. But in the immediate present, there can be no shadow of doubt that the unemployment problem will be far easier to solve if there is a revival in the export trades. Transfer of the workers in the export trades to other employments is at best a very slow and painful business; there would in any case be a residue left behind who would have to be supported for the rest of their lives. With at least half of the unemployment due to the decline in foreign trade, a revival in that trade provides far the best hope of a rapid re-absorption of a large number of those now out of work.

To state the desirability of a revival of the export trades, however, is not the same thing as proving that it can be accomplished. But there are three decisive reasons for refusing to accept the present export stagnation as permanent. The first is that the world is still deeply involved in a depression which has brought quite exceptional conditions of trading. Wherever a country has started to revive, it has (with very few exceptions) increased its purchases of British goods. World recovery will therefore undoubtedly increase the scope for British exports. The second is that the growing industrialization of the outlying portions of the globe, so frequently given as the cause of the decline of British exports, is not nearly as serious an obstacle to British trade as is generally believed. Indeed, of our five largest customers in 1929, three—the United States, France, and Germany—were countries in almost as advanced a phase of industrialization as Great Britain, while a fourth—Australia—had for many years given her own industries very considerable protection. Germany, even in 1934, with all her exchange restrictions and tariff barriers, purchased, per head of her population, half as much again of British exports as India, where British goods are favoured and there were neither exchange restrictions nor prohibitive tariffs. The third reason is that Great Britain has not hitherto made any consistent attempt to seize her opportunities of developing her export trades.

The export industries are at present the most prolific breeders of poverty, idleness, and distress. In any programme of national regeneration they are entitled on every ground to the first attention. The quickest, easiest, and most natural way of reviving them is to

restore to them their former markets overseas. This, without any abstract considerations of Free Trade or Protection, is the justification for encouraging, by every means in our power, a revival in the export trade of Great Britain. It may be that we are over-optimistic in assessing the possibilities of success, but the alternative of changing the mode of livelihood of so considerable a fraction of the working population and of writing off as lost a large part of the industrial and social capital of the country involves so much loss, so much misery, and so much delay, that it is well worth our while to make every possible effort to expand our export trades.

### THE IMPLICATIONS OF TRADE

A policy of increasing our exports has certain implications for the remainder of our economic programme. In particular, it has certain inevitable reactions upon the remainder of our commercial relations with foreign countries. It is, of course, not true that a country's merchandise imports and its merchandise exports must be at all times exactly equal, nor is it true that an alteration of the one is necessarily followed by an exactly similar alteration in the other. But there is nevertheless the closest relationship between the different forms of commercial or financial intercourse with the outside world; and the total of a country's payments to the outside world—whether for goods or services received, or in interest on past borrowings or in foreign loans or investments, or for any other purpose—must equal the total of its receipts from the outside world in the same period. This so-called "balance of payments" can be illustrated by the estimated figures

for the United Kingdom in 1933, which were as follows:

	<i>Million £</i>		<i>Million £</i>
Imports of Goods .	685	Exports of Goods .	422
Net Foreign Lending <sup>1</sup>	2	Receipts for services	105
	<hr/>	Interest and divi-	
	<hr/>	dend receipts .	160
	<hr/>		<hr/>
	<b>687</b>		<b>687</b>
	<hr/>		<hr/>

A moment's reflection will show that the two sides of this balance must always be equal; when lending and borrowing are included, the receipts of any nation over any period of time must equal its payments. To set the figures out in this way also makes the alternatives of policy quite clear. If exports increase—that is, if the first figure in the right-hand column becomes larger—it necessarily follows *either* that one of the two other right-hand figures must *diminish* correspondingly, *or else* that one or other of the left-hand figures must *increase* correspondingly. If exports are to increase, either our receipts from other sources must diminish or our imports of goods must increase or we must make larger loans to overseas countries.

All this is, of course, platitudinous and would hardly be worth setting out at such length were it not that nation after nation, our own not excluded, has attempted in the last few years to ignore its simple logic. They have attempted to control one part of their commercial relations with the external world and have then

<sup>1</sup> "Net Foreign Lending" includes the net balance not only of long-term loans to and from this country but also of short-term loans and commercial credits. The composition of this omnibus item may of course differ greatly at different periods; sometimes—as in 1931—the item may be a negative one (*i.e.* net borrowing from abroad) and may be so large and of such a character as to produce a financial crisis.

tried to avoid the inescapable results of their action. They have cut down imports and refused to lend abroad, and have then professed pained surprise at the decline of exports and the default of foreign debtors. Now there is no objection in economic theory to the planning of foreign trade, provided it is planned as a whole. There is no objection to an attempt to alter by governmental interference the appearance of the balance of payments, provided that it is recognized to be a balance. The only impossible policy is one which attempts to defy the laws of arithmetic.

In our own case, the alternatives are quite clear. We wish to induce an expansion of exports, and the next section of this chapter will contain some proposals to that end. But before we start on a policy of expanding exports we must be quite clear what it implies. We obviously do not desire an increase in the export of goods to be merely at the expense of exports of services (shipping, insurance, etc.) or at the expense of our receipts of interest and dividends on our foreign investments. We may take it, then, that an expansion of exports must be accompanied by an expansion in the items of the left-hand column of the table printed above. Some increase of foreign lending is to be welcomed. There are and will continue to be countries in need of capital development; and it is right and proper that this capital should continue to come, so long as it is needed, from those countries which have furnished it in the past and are in a position to continue to furnish it to-day. Moreover, we cannot for ever refuse further accommodation to those countries, many of them within the Empire, whose economies have been largely built up on recourse to the London capital market. But it is unlikely that the revival of overseas

lending will be sufficiently large to keep pace with the expansion of exports that we hope for. It is likely, therefore, that an increase in our earnings from exports—which, as we have seen, is essential to any rapid and reasonably complete solution of the unemployment problem—will involve at the same time some increased expenditure on imports. There is no reason to regard such an increase with apprehension. Some of the imports will be the necessary raw materials of British industry. Again, as commodity prices rise, the value of our imports of food and raw materials will automatically increase. Even competitive imports of manufactured goods, though they are, of course, unwelcome to the industries directly affected, increase the income of goods available for consumption by the community as a whole.

This conclusion does not, in itself, imply that the protective duties accorded to British industry in the past three years are either too high or too low. The British tariff is not even now very high, as protective tariffs go in the post-War world. But it does imply certain limitations on British tariff policy for the future. For example, it is sometimes advocated that we should buy from abroad only those goods which it is physically impossible to produce at home. But if we do this, our imports will diminish instead of increasing. Furthermore, the price of many of these goods produced at home in the shelter of a high tariff wall will be considerably higher than the price of the same goods imported from abroad. The costs of our exporting industries will go up and their competitive position will be worsened rather than ameliorated. It should be remembered that, with the exception of coal to some countries, there is not a single one of our major exports which the importing

countries could not produce for themselves if they chose to. Our only possible basis of competition is a combination of cheapness and quality.

It follows that whatever principle is to inspire our tariff policy, one principle is emphatically not suitable for our circumstances: protection must not be granted so as to guarantee the existence of every industry which is, or could be, established in this country. Tariff rates should be fixed not only in the light of the benefits they will confer on the industries to be protected, but also after consideration of the difficulties they will place in the way of the export trades. The latter factor, though less clearly traceable, is of at least equal importance with the former. We must recognize that cases will occur in which the domestic industry must be denied, in the interests of the export trade, the degree of protection which would enable it to surmount foreign competition; we must deliberately reconcile ourselves to importing many goods which, given adequate protection, could be made at home. The loss will be direct and those who suffer it will be vociferous; but it should be the part of wise policy to remember the gain to the community as a whole, which, though it may receive far less public expression, may nevertheless greatly outweigh the loss to particular interests. The interests of the community at large, given the fact that its unemployment is now concentrated in the export trades, will undoubtedly be best served if the efforts to expand export markets are assisted by a willingness to keep import duties within very moderate limits.

This general discussion suggests one important conclusion concerning the technique of tariff-making. Under the system set up by the Import Duties Act of

1932, tariff duties on different articles are separately considered and determined. There is a general duty of 10 per cent on all imports except those in the Free List and those dealt with under different enactments; duties above the level of 10 per cent are imposed on the recommendation of the Import Duties Advisory Committee and at the request of the industries affected. As a result, our tariff list is becoming detailed and complicated.

A system of this sort, without any basic policy to guide its operation, has, in our opinion, grave disadvantages. In the long run, perhaps the most serious of these disadvantages is that the rates of protection tend to be fixed at the request of the interests directly affected. When legislation begins to affect the direct interests of particular sections of the community, the door is opened to any number of abuses. We have had ample evidence in other countries of the corruption, the lobbying, and the log-rolling which are summoned into being by the existence of a variable tariff. Even when there is no question of corruption, the possibility of securing an increase in protection is an invitation to industries to organize themselves and to bring every possible kind of political pressure to bear upon the authorities who fix the rates. The existence of an independent Advisory Committee is to some extent a safeguard against some of these dangers. But such a body, while capable of applying a prescribed policy in detail, is unsuitable for constructing the policy itself. Indeed, there is no system of government yet devised which has shown itself capable of entirely ignoring the clamorous representations of these highly organized vested interests. A tariff of this sort inevitably compels industries to consider how they can

most effectively organize themselves for their special benefit.

But even if lobbying and the dangers of political pressure can be entirely obviated, the system of duties varying from one article to another has a very grave fundamental defect. The authority which has to consider the applications, whether it is an Advisory Committee as now or is acting in conjunction with the Chancellor of the Exchequer and responsible to Parliament, must have some general principle to work to, if only for the sake of consistency. Now if applications are to be dealt with separately there is only one principle which the authority can bear in mind, there is only one criterion by which it can judge the rates of protection asked for—and that is the so-called “scientific” principle. The “scientific” principle is, in brief, that the protective duty should precisely equal the difference in cost of production between the domestic industry and its foreign competitors. If costs are thus equalized, it is alleged that the domestic and the foreign producer will compete on equal terms. Now leaving altogether aside difficult questions such as the ascertainment of costs of production, the theory of the “scientific” principle is open to the gravest objection. For, carried to its logical extreme, it means the prohibition of all imports; nobody buys foreign goods except when he can get a better article for the same price or the same article cheaper. The “scientific” principle means that every industry is to be given sufficient protection to enable it to exist—in other words, it is the one principle which, as we have just seen, Britain cannot afford to support, for if it became the universal practice of the world, we should soon have no exports at all, except perhaps a little coal. But if the

Import Duties Advisory Committee is to consider each industry separately, is there a logical stopping-place between no protection at all and sufficient to guarantee a market? How under the present system is the Committee to arrive at any lower rate, or justify it when determined?

We discuss later some cases in which we consider that specially high duties are justifiable to protect industries which are decided to be of special national importance, in relation to a general national plan conceived as a whole, and others in which especially low duties are desirable as a basis of reciprocal arrangements designed to increase our exports. But subject to these important exceptions, we are of the opinion that, for a country in our circumstances, the best tariff system is one which does not attempt to discriminate between different industries. We think, therefore, that Parliament should, subject to the exceptions we describe, enact uniform maximum rates of import duty, not necessarily for the whole of our imports, but for whole categories. It might, that is to say, fix a maximum rate of  $x$  per cent for staple foodstuffs and raw materials,  $y$  per cent for semi-manufactures, and  $z$  per cent for manufactured goods. This would mean that British manufacturing industry would be given a general protection of up to  $z$  per cent. Those industries for whom this was sufficient would enjoy the domestic market without foreign competition. Those for whom it was insufficient would not be established in this country. The nation would, in effect, be saying to them: "If you cannot compete with  $z$  per cent protection, we prefer to buy from abroad and thus assist our export trades; we are willing to pay so many shillings more in the £ in order to 'Buy

British', but no more". In this way, by a natural process of competition, the industries in which our competitive disadvantage does not exceed 2 per cent would settle here; other goods we should buy from abroad. We should still (provided the uniform maximum rate were not too high) be able to reap many of the material advantages of the international division of labour, and the volume of our imports would still maintain the possibilities of existence for our exporting industries.

These flat rates of duty, however, would be subject to variation in special circumstances. It would probably be necessary, for example, to include a provision for temporary emergency increases. There are occasions when the disorganization produced by a world depression leads to the unloading on the world's largest open market of goods at prices far below competitive levels. This sudden inflow of goods might well ruin a domestic industry which has been perfectly economic in the past and will be perfectly economic again when the emergency has passed. On the other hand, there must be the most stringent provisions for ensuring that these temporary emergency increases do not become permanent; their duration should be strictly limited, and renewal must be neither usual nor easy to procure. Secondly, provision should be made for increases of duty above the flat-rate maximum in the case of industries for which a definite national plan has been adopted. In the course of working out a national plan, the State may well decide that a given section of the national economic activities requires more than the degree of development to which it would normally attain. This decision may be reached for social reasons, for greater security in time of war, or for other reasons. The

important point is that it should not be arrived at merely in order to increase the incomes of those engaged in the industry, but because after due consideration of the national economy as a whole the nation, through its duly constituted organs, decides that the common interest would be served by the subsidization of that particular branch of industry. Exceptions of this sort, therefore, should be accorded only to publicly planned (perhaps in some respects publicly controlled) industries—and by no means to all such industries. It must be borne in mind that protection of more than the average amount necessarily gives the protected industry a favoured position in the national economy. Where such favouritism is deliberately decided upon after full consideration, it is fully justifiable. What is unjustifiable is the piecemeal construction of a lopsided system under pressure.

So much for the exceptional cases in which tariff duties of more than the flat-rate maxima would be allowed. But it would also be permissible to *lower* rates of duties. It is indeed, on such reductions, as the basis of negotiations to secure a reduction of foreign duties, that we place the greatest reliance for obtaining an increase in our export trade, and they consequently merit an extended discussion.

### THE MEANS OF EXPANDING TRADE

Any considerable increase in our exports will almost certainly involve an increase in our imports, and if we prevent any increase in imports we shall make infinitely more difficult the task of securing an increase in exports. But it does not follow that if we merely open the doors to our market and welcome an increasing volume

of imports, an expansion of our exports will follow without any further steps being necessary. In a world which did not control its international trade, an increase of exports would ultimately follow from an increase in imports, but in the present controlled, and even strangled state of international trade, it cannot be counted upon. The time has passed for unilateral economic disarmament and for relying on the innate goodness or common sense of foreign nations to make them follow suit. The best way of securing markets for the British export industries in future will be to allow easy access to the great market of Great Britain only to those nations which in return undertake to buy our goods. The reciprocal bargain will be the characteristic commercial negotiation of the future. On a small scale this type of bargain has already made its appearance; the recent coal-for-cattle agreement with the Irish Free State can be cited as an example. But the extension of the same idea to a larger field involves some modification of the principles which have hitherto underlain our trade policy.

British commercial policy has hitherto been founded, as has that of virtually every other country in the world, on the principle of equality of treatment. With the significant exception of the Dominions and the dependent Empire, to whom we accord preferential rates, we treat every country alike; each country's goods are subjected to precisely the same duties; there are no penal discriminations, no differential advantages. In return we demand of other countries that they should accord us treatment at least as good as they accord to any other nation. Nearly all our commercial treaties contain the so-called "unconditional most-favoured-nation" clause by which both

parties pledge themselves to accord to the other treatment equal to that given to the "most-favoured nation" (preferences granted to the British Dominions or Colonies being always excluded). The "most-favoured-nation" principle has been of great value in the past. It is an obvious safeguard against discrimination and tariff wars. In a world of moderate tariffs, where reductions of rates were not unknown, the principle probably worked to secure, on balance, a lowering of tariffs. Any reductions agreed upon between two nations had to be extended to the rest of the world.

There are two categories of nation for whom the "most-favoured-nation" clause is of obvious advantage. The first category is that of Free Trade nations. Imposing no tariffs, they can obviously pledge themselves not to discriminate without in any way limiting their freedom of action, while on the other hand they secure for their exports the lowest tariff in force in foreign countries. The second category is that of countries with very high tariffs who are unwilling to consider agreements for bilateral concessions with other countries; the United States is the obvious example—or was until the legislation of 1934 placed in the President's hands the power to lower duties in accordance with bilateral agreements. These countries can promise with an easy conscience not to discriminate, for they intend to subject the goods of all countries alike to the same prohibitive tariff, while they can secure, by means of the most-favoured-nation clause, as free entry into foreign markets as any of their competitors. For these reasons the two countries which throughout the post-War era have been the staunchest defenders of the most-favoured-nation clause have been Great Britain

and the United States; the one (until 1931) Free Trade, the other with the highest tariff in the world.

Thus the clause has been of great usefulness in the past and has considerable merits to-day. But for a country with moderate tariffs, anxious to increase its trade, it has come to have certain severe disadvantages. Let us suppose that two countries of this kind are anxious to effect a mutual increase in trade by reducing duties on each other's exports. Belgium and Holland actually concluded an agreement at Ouchy in 1932, to halve their tariffs on each other's goods; and something of the same sort is the obvious prescription for the economic difficulties of the Danube basin. Belgium may be willing to reduce her duties on Dutch goods, in return for corresponding concessions from Holland; but she may be quite unwilling to reduce her tariffs on the goods of the whole world without any corresponding concessions in return. But this is what Belgium would have had to do, according to the provisions of her most-favoured-nation treaties with a great many other nations. The Ouchy Convention was consequently made subject to permission being obtained from other countries to confine its provisions to the two signatory powers. This permission was refused, Great Britain taking the lead in the refusal, and the agreement consequently dropped. The most-favoured-nation clause, far from widening the area of application of tariff reductions, is thus tending to prevent reductions from being undertaken.

It cannot be in the interests of Great Britain to increase the obstacles in the path of international trade. The method of bilateral negotiations which has been pursued by the British Government since 1932—and pursued, be it noted, with the countries most anxious

to trade with us—has borne disappointing fruits. In part this has been due to the fact that Great Britain, flushed with the first enthusiasm for Protection, has been unwilling to make sufficient concessions to gain substantial advantages in return. But in the main it has been due to the fact that neither party to a bilateral agreement has been able to make large concessions, since they would have to be extended to the whole world. The area of possible concessions has consequently had to be limited to commodities which are purchased only from the other party to the agreement. Coal and bacon in the Anglo-Danish agreement are examples. Denmark buys coal from very few countries other than Great Britain, while we buy bacon from very few foreign countries other than Denmark. As such pairs of commodities are very few, bilateral agreements do not lead very far.

If Great Britain is to secure a substantially greater freedom of access to foreign markets for her goods, she will be forced in future to confine her concessions to those who will grant concessions in return. This will involve some modification of the most-favoured-nation clause. How necessary this is may be seen from a glance at the conditions of Empire trade. The whole system of Imperial preferences, as well as the bargains struck at Ottawa, would have been valueless if they had had to be extended on equal terms to the rest of the world. Empire trade can only be given preferential treatment because it is regarded as an exception to the most-favoured-nation clause, and we propose no more than that the possibility of mutually advantageous trade bargains, which now exists as between the Empire countries, should be extended to our relations with foreign countries as well. The British Dominions are so com-

pletely independent in their commercial policies that it is very hard to find a logical justification for their exemption from a rule which is kept intact for all other sovereign nations. The British veto on the Ouchy Convention was delivered within a very few weeks of the conclusion of the Ottawa Agreements, and Great Britain thereby put herself in what, to foreigners' eyes, is the indefensibly hypocritical position of refusing to allow two small neighbouring States of Europe to do between themselves precisely what Great Britain herself was doing at the same time with her wholly self-governing Dominions.

The need for modification of the most-favoured-nation clause does not, however, mean that it should be entirely abandoned. On the contrary, its disappearance would lead to an infinitude of discriminations and conflicts. What is needed at the beginning is a provision for the exemption from the clause's operation of genuine reciprocal bargains for the increase of trade.

Great Britain should announce that she would not in future consider the clause as applying to reductions of tariffs negotiated under certain conditions. The chief of these conditions should be:

- (i) That a certain minimum number of countries (say five) were concerned in the tariff-reduction agreement;
- (ii) That it was a real tariff-reduction agreement, and not merely an agreement to raise tariffs against non-participating countries (as in the main the Ottawa Agreements were);
- (iii) That the reductions embraced a substantial part of the trade of the countries concerned; and
- (iv) Most important of all—that the agreement was

open to accession by any other country on the same terms—*i.e.* a lowering of its own tariffs.

Supposing that Great Britain offered in this way to found a “Low Tariff Club”, what would be the response of other nations? How many would collaborate, and how many would refuse their consent to such a modification of the most-favoured-nation clause? We believe that the moral effect of British leadership would be as great in the commercial as it could be in the political sphere. Many nations at present, though forced to protect their industries by a *chevaux-de-frise* of tariffs, quotas, and prohibitions, are not at heart high protectionists and would readily join in any concerted effort to emancipate commerce. This applies in particular to the “ex-neutral” States of northern and western Europe and to many extra-European nations. But we need not rely on moral effect alone; there would be a powerful bait for members. Great Britain is incomparably the greatest market open to the world. We buy one-fifth of all the goods the rest of the world exports, and if purely local trade between contiguous countries is excluded, the proportion is even higher. We buy virtually all the meat the world exports, over one-third of all the wheat, and similarly high percentages of other commodities. There are several countries whose economy is so thoroughly adjusted to selling in the British market that they would be compelled to take whatever measures were necessary to secure the most favourable entry possible to that market. There are several more nations who, though not under such strong compulsion, could hardly afford to see themselves put at a disadvantage in the British market. For all these reasons we should expect to find a considerable proportion of

the commercial nations of the world entering the "Low Tariff Club". If it could be combined with some measure of provisional currency stabilization, as proposed in Chapter V, the number of entrants would be increased.

Some countries, however, would remain outside. But that does not necessarily mean that they would refuse assent to such a modification of the most-favoured-nation clause. Some of them, though not ready to join the British "Low Tariff Club", would be anxious to apply the same principle within groups of their own. Other nations would consent to the arrangement because of its essential fairness and because of their past recognition of the principle. The American nations, including the United States, went on record at the Pan-American Conference at Montevideo in 1933 in favour of the principle of exempting agreements of the sort we contemplate from the operation of the most-favoured-nation clause. The resolution which was passed reads (in part) as follows:

"With a view to encouraging the development of unified and comprehensive multilateral treaties as a vitally important instrument of trade liberalization, the advantages of which treaties ought not to be open to countries which refuse to confer similar advantages, the subscribing governments declare, and call upon all governments to declare, that they will not invoke their right to demand, under the most-favoured-nation clause contained in bilateral treaties to which they may be parties, any benefits of multilateral treaties which have as their general purpose the liberalization of international eco-

nomic relations and which are open to the accession of all countries. . . .”

In a model form of treaty which was also drawn up by the Conference, the agreements to be exempted from the operation of the clause are described as “multi-lateral economic conventions of general applicability, which include a trade area of substantial size, have as their objective the liberalization and promotion of international trade or other international economic intercourse, and are open to adoption of all countries”. It will be noticed that the conditions laid down by the Pan-American Union are substantially the same as those set out on page 143. In view of this resolution, none of these countries could in equity refuse its assent to a “Low Tariff Club” agreement sponsored by Great Britain.

We do not, for all these reasons, believe that there would be many objectors to the “Low Tariff Club”. And with the minority who did object Great Britain could safely denounce her commercial treaties. No one, of course, would suggest that Britain should seek tariff conflicts with any nation; but she has nothing to fear from them. There is hardly a country from whom we do not buy more goods than we sell, and there are many countries to whom we pay more for goods received than they pay to us for goods, services, and interest on loans combined. The trumps are all in our hand, did we but know it. If we play them well, it should be possible to increase our exports within five years at least to their level of 1929—that is, to increase them by about one-quarter of their 1934 volume. And if that were done, it would find work directly and indirectly for nearly a million of those who are now

on the dole. There are very few other proposals of economic policy from which so large a result can be so reasonably hoped.

This is only a brief outline of the commercial policy which we should like to see Great Britain follow, and it has many implications of which space does not permit the discussion. But two matters deserve a brief mention. One is the place of the Dominions and the Colonial Empire within the new system which we envisage. The other is the growing resort to quotas instead of tariffs.

A conflict still rages round the Ottawa Agreements in which we do not wish to intervene. But it is probably possible to secure general agreement with two principles which should regulate Empire trade. The first is that the British public will be willing for some time to come to grant a certain preference to the Dominions. That means to say that we should levy, on imports from a Dominion, duties lower than would be levied if that Dominion were a foreign country. But it does not mean to say that the Dominions are to have a preference to the exclusion of other nations; it does not mean that they are to take their fill of the British market before other nations are admitted, but only that they shall have a reasonable start. We cannot admit that agreements with the Dominions should entirely preclude us from making favourable bargains with foreign countries. The second principle is that we cannot afford to treat a Dominion which imposes uniformly high duties on our goods more favourably than a foreign country which welcomes our goods. A Dominion which joins the "Low Tariff Club" should be granted a lower tariff than the other members—or perhaps no tariff at all. A Dominion which refused to join the "Low Tariff Club" should pay a tariff lower than foreign countries

outside the "Club" but not so low as foreign countries within the "Club". Anything else would be a departure from the principles of reciprocity which must henceforward inspire our commercial policy.

The tariff policy of the Colonial Empire is, in the main, decided in Whitehall. Hitherto this has meant that the Colonies' tariffs have been moderate and non-discriminating. But there has recently been a tendency to use the Colonies' tariffs as part of a commercial policy designed to benefit not the Colonies but Great Britain. We believe that policies of this nature should be strongly deprecated. The Colonial Office, in regulating the tariff policies of the Colonies, should attempt to act on precisely the same assumptions as would be applied by a fully self-governing unit prompted primarily by a prudent regard for its own interests.

Ever since 1920, it has been the accepted policy of all parties that where the Government of India and the Indian Legislature are in agreement upon a fiscal matter, the Secretary of State will not intervene in order to protect the trading interests of Great Britain. The words of the Joint Select Committee on the Government of India Bill, 1919, seem equally applicable to the Colonies: "Nothing is more likely to endanger the good relations between India and Great Britain than a belief that India's Fiscal policy is conducted from Whitehall in the interests of the trade of Great Britain. That such a policy exists at the moment there can be no doubt. That there ought to be no room for it in the future is equally clear." We believe that the Colonies would enter the "Low Tariff Club". But they should be free to do so in their own interests, not in ours.

Quotas are products of the emergency. They arise

in part from the immoderate dumping which occurs when the international system loses its balance, in part from the desire to discriminate without infringing commercial treaties, in part from the necessity of debtor countries to reduce their imports more radically than could be effected by tariffs. We can see that, in an emergency, they have their uses. But they are open to the very gravest objection. In the first place, though they arise out of an unbalanced state of world trade, they confine trade absolutely within arbitrary limits and entirely prevent those readjustments from coming about which alone are capable of restoring a condition of balance.

Secondly, the quantitative restriction of imports inevitably confers an advantage on those who are licensed to conduct the restricted volume of trade allowed. It creates a new and valuable form of property right, the value, of course, being abstracted from the consuming public of the country imposing the quota. In 1932 we imported 12,192,188 cwt. of bacon and hams at a cost of £32,913,045. The imports in 1934 were 8,326,714 cwt. at a cost of £33,176,499. This increased value, for a smaller quantity of bacon and hams, may not have been entirely due to the imposition of the quota. But in so far as it was so due, it represented a gift from the people of Great Britain to the bacon exporters of other countries. The extra value in this case did at least get into the pocket of the producer. In other trades, where the whole supply passes through the hands of importing agents, the quota serves merely to enrich these firms. They can sell at a higher price in the importing country because of the restriction of supply by the quota, while at the same time the restriction of demand in the exporting country

enables them to bid lower prices for their supplies. This sort of effect is wholly indefensible. The quota should, therefore, in future be regarded entirely as an emergency or transitional weapon unless it is used in conjunction with Import Boards.

## CHAPTER VII

### AGRICULTURE

#### THE PLACE OF AGRICULTURE IN THE NATIONAL LIFE

THE problem of agricultural policy illustrates in an effective way the need for a general plan to which each section of our economic and social programme has to be related. The welfare of agriculture cannot be considered without regard to the special place which it fills in the national life; nor on the other hand can we afford to ignore the injurious reactions upon the rest of the national economy which might result from treating the claims of agriculture as the only or dominant consideration in framing our general plan. Our aim should be to maintain and foster the productivity and standard of living of workers on the soil without impairing the standard of living of the towns. How this can best be achieved is a problem which calls for a more dispassionate approach than is sometimes given to discussions of agricultural policy.

Though Britain is primarily an industrial and commercial nation, agriculture is still her largest industry. Moreover, its contribution to the health and well-being of the nation cannot be measured merely by the money profit which it returns or the capital and labour employed in it. The occupation of farming with its close contact with nature supplies elements in the mental

and physical life of the nation which it can ill afford to lose. The advantage which Britain has derived from cheap imported food must not blind us to the other side of the picture or make us indifferent to the deterioration which it has involved in the position of British agriculture. If we are to maintain a healthy balance between town and country the decay of agriculture must be arrested. As the Liberal Yellow Book of 1928 put it: "Agriculture is the last industry which ought to be left to its fate with the lazy phrase, 'If it is not paying, let it go!'"

During the hundred years between 1815 and 1914, Great Britain transformed herself from a self-supporting, largely rural, country, into a vast workshop, growing at home only about one-third or two-fifths of her food and importing the rest in exchange for her manufactured exports. There cannot be any doubt that Britain has made an enormous annual economy by exporting her manufactures in exchange for food. If the resources of capital and labour which were engaged in the export industries had been diverted into the direct production of food, they would undoubtedly have produced considerably less food from the soil of Britain than they could obtain by production of their goods for overseas exchange. Nor can it be said that the cheapness of imported food is always due to a low standard of living in the countries from which the food comes. Some of these countries doubtless have standards of living lower than that of the British agricultural labourer. But a very great deal of our imports of foodstuffs come from countries such as the British Dominions, the United States, and Denmark, where the standard of living of the rural population is, in normal times, at least equal to that of Great Britain.

The purchase of imported food in exchange for exported manufactures was, of course, a part of our national free trade policy. Since the War many things have changed, and it is frequently said that the system of international exchange has broken down. In many ways the statement is true. But as a provider of cheap food for Great Britain, it is emphatically not true that the system of international exchange has broken down. Throughout the post-War epoch we have never at any time had the slightest difficulty in purchasing food from abroad; we have suffered neither from greater scarcity nor from relatively higher prices than before the War (though food has, of course, been all too scarce and prices all too high for the proper nourishment of great numbers of our people). On the contrary, foodstuffs have been pressed upon us in embarrassingly large quantities at very low prices. Indeed, part of our trouble has been that the system of exchanging manufactures for foodstuffs has been, in one sense, working too well. The foodstuffs have been offered to us at such low prices that we have been able to buy all we wanted with a smaller quantity of our manufactures than before the War. That is part of the explanation of the post-War depression in our export trades: we did not need to send so many manufactures abroad as before the War in order to buy our food. In 1927 a given quantity of imported food could be bought with only seven-eighths of the volume of our manufactured exports that was needed in 1913. In 1934 the proportion had fallen to seven-tenths.

Importation is, therefore, still the cheapest way of securing the bulk of our food, and is likely to continue to be so. It is hard to calculate the benefits we owe to cheap food. It has helped to give our urban working-